

CREDIT AND CAPITAL MARKETS 1980



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The financial markets are starting the decade of the 1980s in a very murky and unsettled atmosphere. Not only is the economy caught up in its worst inflation since the removal of controls after World War II, but it is still sending off mixed signals as to the prospective path of business activity. Further clouding the outlook are the questions regarding the response of monetary policy to the changing economic picture. The direction of fiscal policy, too, is unclear, in view of the indicated step-up in military spending and other Government reactions to events in Southwest Asia. These uncertainties, along with the soaring price of gold and the increased flow of petrodollars in the wake of the recent steep hike in oil prices by OPEC, are raising concerns about the dollar.

Meanwhile, the money and capital markets experienced some strains in the course of 1979, and liquidity was further eroded. These developments, together with the rampant inflation, have left a discernible imprint upon the nation's financial institutions and upon investor psychology that is sure to influence borrowing and lending decisions for some time to come. While current economic trends point to an easing of pressures on the credit and capital markets and some decline in interest rates during 1980, the prevailing uncertainties underscore the many pitfalls that may be encountered in appraising the outlook.

Legacy of 1979

Last year saw more than the usual number of surprises in the financial markets, most of them stemming in one way or another from the speedup of prices and the alarming spread of inflation psychology. The credit and capital markets encountered no real stresses during the first half of 1979; interest rates held essentially steady as the pace of the economy slackened and fears of an imminent recession began to spread, and the dollar was relatively stable. But both money market rates and bond yields resumed their cyclical advance over the summer, in response to the strengthening in business activity, mounting inflationary pressures and the accelerating growth of the money supply. During the autumn, the full spectrum of interest rates moved upward dramatically, significantly exceeding the peaks reached at the height of the 1974 credit crunch.

The sharp run-up in interest rates late in 1979—as well as their extreme fluctuations—caused considerable turmoil for a time in the Government securities market and in the corporate bond market, more than was experienced in previous periods of severe credit stringency. Only in the municipal market did yields last year not return to their earlier highs, which attests to the attractiveness of the tax-exempt feature for individuals in today's high-inflation, high-tax environment.

KEY INTEREST RATES
END OF YEAR, IN PER CENT

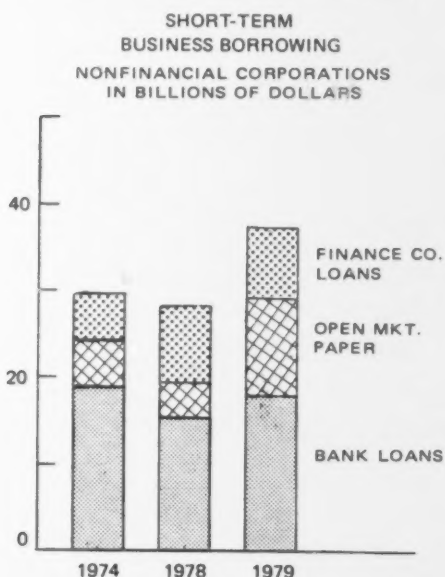
	1978	1979
Federal funds	10.84	14.77
Treasury bill rate - 90 day	9.34	12.07
Certificates of deposit - 90 day	10.80	13.35
Commercial paper - 90 day	10.69	13.17
Prime rate	11.75	15.25
Treasury securities - 3 year	9.59	10.71
Treasury securities - 10 year	9.14	10.45
New telephone bond issues	9.45	11.20
Moody's Aaa industrials	9.06	10.60
Municipal bond issues	6.61	7.23

The closing months of 1979 also saw a noticeable widening of the gap between yields on high-grade bonds and lower rated securities, and some increase in the risk premiums in the commercial paper market, as for the first time since the 1974-75 period the quality of credit became an issue. Though the credit squeeze that many were predicting did not materialize, money market rates at the end of last year were not far below their peaks, and long-term yields were still trending upward. Moreover, only a few financial analysts expected that interest rate behavior in 1980 would be a carbon copy of the pattern typical of a business cycle downturn.

Shift in Credit Policy Contributing most to the steep jump in interest rates late last year was the abrupt shift in monetary policy on October 6. Indeed, the Federal Reserve's dramatic credit-tightening moves—the hike in the discount rate, the imposition of supplemental reserve requirements on commercial banks' "managed liabilities" and, most significant, the shift in emphasis from controlling the Federal funds rate to focusing on the growth of bank reserves—in many respects overshadowed all other financial market developments during 1979.

The practice of "gradualism" through nudging the Federal funds rate upward in small steps that was pursued by the monetary authorities into last summer did little to retard the rapid expansion of credit. But after the policy shift in October, the growth of the money supply slowed markedly. At the same time, the new policy introduced a greater element of uncertainty into the financial markets, so that interest rates became more volatile during the final quarter of last year.

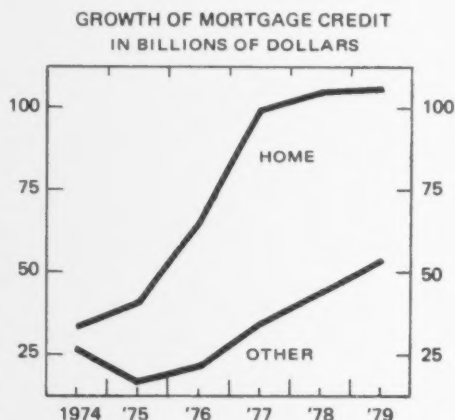
Large-Scale Borrowing Though the volume of financing slackened conspicuously toward year-end, the overall expansion of credit nevertheless was strong in 1979. While real economic growth slowed, the need for funds was amplified by the rapid rise in operating costs and in costs of working capital. Total funds raised by all nonfinancial sectors combined amounted to \$386 billion, a bare \$3 billion less than the record borrowing in 1978, when the economy was expanding vigorously. In addition, there were some striking changes in the mix of financing demands last year. The borrowing requirements of the private sector actually reached a new high, surpassing the peak the year before by as much as \$16 billion.



Business demands for short-term credit, in particular, were heavy, even though the internal cash flow of corporations increased substantially. The expansion of nearly \$25 billion in short-term commercial and industrial loans at banks sur-

passed the increase the preceding year; in addition, business corporations increased their term loans from commercial banks by 40 per cent. Large nonfinancial companies with top credit ratings more than doubled their borrowing in the commercial paper market. Business borrowing from finance companies remained strong. And the volume of net trade credit extended by the corporate sector again was substantial, especially late in the year after interest rates moved up sharply and credit became less easy to obtain. All told, funds raised by nonfinancial corporations at short-term increased by \$37½ billion in 1979, nearly \$10 billion more than the year before.

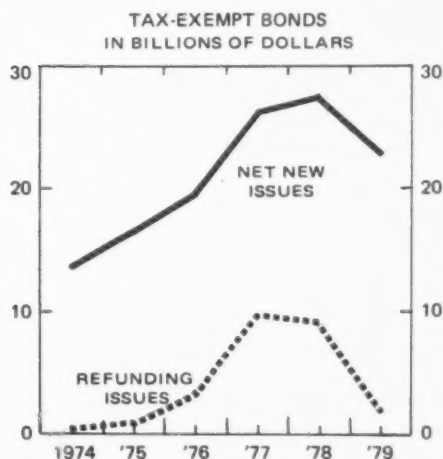
Borrowing by consumers also was sizable, though it fell well short of the peak expansion in 1978, and the pace eased off noticeably during the autumn, after instalment credit extensions in September soared to the highest level for any month on record. While auto credit grew more slowly last year, along with the decline in new-car sales, consumer credit overall still expanded by a hefty \$42 billion.



Striking, too, was the further expansion last year in mortgage debt. Notwithstanding the rapid rise in mortgage interest rates, residential mortgage debt grew by an estimated \$115 billion, about the same as in 1978, when the number of housing starts was much higher. In addition, the growth of farm mortgage credit was over two-thirds greater than the year before. And reflecting the big increase in office building and hotel construction, but also because of the large supply of institutional funds available for investment in the market, commercial mortgage lending expanded well beyond the preceding year.

Corporate bond financing, which had fallen off in 1978, was up noticeably last year as well, even in the face of the higher cost of taking on new debt. Contributing to the rise was the \$1 billion offering by IBM, the first ever by that company and the largest corporate bond issue ever brought to market. Despite the fact that commercial banks doubled their borrowings in the bond market, offerings by financial concerns in total declined because of the cutback in activity after midyear by finance companies. Still, net new bond issues amounted to almost \$29 billion in 1979, slightly more than in 1978. The \$3.0 billion (net) of funds raised by business corporations last year through the sale of new common and preferred stock issues likewise was above the previous year, though not by much, as the wave of mergers and acquisitions again resulted in a large amount of stock being retired.

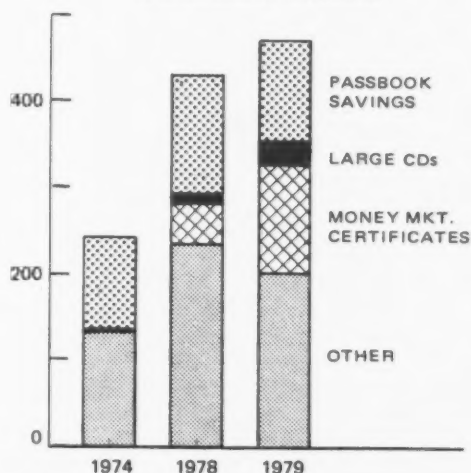
Reduced Public Financing The volume of public sector borrowing in 1979, by contrast, fell below the year before. Reflecting the restrictions imposed the preceding year by the Treasury on advance refunding issues, municipal bond financing was down close to 15 per cent, even after the heavy volume of housing bonds early in the year before Congressional limitations were placed on such offerings. Federal agency borrowing also was not as large as in the previous year, but it was sizable because of the continuing need to support the residential mortgage market and to meet the expanded borrowing requirements of the farm credit system.



Most significant, however, was that the volume of Treasury borrowing fell well short of the preceding year—and was considerably under the projections made at the start of 1979. With employment increasing and inflation pushing up personal income tax receipts faster than spending was rising, the Federal budget deficit for fiscal 1979 turned out to be \$27.7 billion, instead of the \$37.4 billion officially estimated last January. Thus, notwithstanding the expanded needs of the off-budget agencies, the Treasury raised almost \$15 billion less new money during the calendar year.

Disintermediation Again Developments last year on the supply side of the credit and capital markets were perhaps of greater significance, especially the squeeze on the thrift institutions. The savings and loan associations, mutual savings banks and credit unions all were successful in attracting deposits during the early months of 1979. Thereafter, however, as interest rates rose, the growth of deposits dropped off. At the mutual savings banks, withdrawals exceeded new deposits (excluding interest credited) in every month from April through December. The pressure on the credit unions was equally severe. And while the S&Ls fared somewhat better, they, too, were hurt by the disintermediation.

**SAVINGS ACCOUNT BALANCES
SAVINGS & LOAN ASSOCIATIONS
IN BILLIONS OF DOLLARS**



Consequently, the S&Ls were forced to borrow heavily from the Federal home loan bank and to run down their liquidity in order to accommodate

the sustained strong demand for residential mortgage money. Similarly, mutual savings banks utilized their lines with commercial banks, sold off securities from their investment portfolios and drew on their liquidity. Nevertheless, the thrift institutions, as a group, still cut back their mortgage lending. When interest rates soared, following the Fed's tightening moves in October, the pressures on the thrifts intensified as the incentives increased for savers to divert funds into higher yielding money market instruments, either directly or by shifting into the money market funds.

The disintermediation at the thrift institutions last year could have been worse were it not for the stepped up issuance of high cost money market certificates and of jumbo (over \$100,000) certificates on which there are no interest rate ceilings. The savings and loan associations, which were the most aggressive in competing for funds, saw their outstanding money market certificates increase from roughly 10 per cent of total deposits at the end of 1978 to over 25 per cent at the close of last year.

Commercial Banking Picture The expansion of commercial bank credit slowed appreciably following the Fed's credit-tightening moves in October. But for 1979 as a whole, bank loans and investments taken together rose by almost \$126 billion, equaling the record growth in the previous year.

With their demand deposits showing only modest growth last year and savings deposits feeling the competition from rising market interest rates, commercial banks, especially the large money center banks, relied more on purchased funds to meet the strong demand for loans. Through the early months of 1979 and into the summer, they turned mainly to Federal funds, RPs and Eurodollars to meet borrowing demands and allowed their outstanding CDs to run off. But by late summer, the banks once more became active issuers of CDs, though not enough to offset the earlier runoff. And for a time toward the end of the year, when the additional reserve requirements significantly raised the cost of purchased funds, the banks increased their borrowing from the Federal Reserve. In responding to the strong loan demand, the commercial banking system experienced a further reduction in liquidity, so that by year-end banks generally had become cautious in their lending policies.

Other Institutional Changes Besides the severe squeeze on the thrift institutions and the increased pressures on commercial banks, other financial institutions were affected by the steep advance in interest rates last year and by the deepening concern over inflation. With the borrowing rate on life insurance policies limited, in most cases to 8 per cent or less, policy loans at the life companies, which had been creeping upward earlier in the year, soared in the final three months of 1979, and officers turned cautious about making investment commitments.

The growth in cash flows of the fire and casualty insurance companies slowed for the first time in a number of years. Underwriting losses rose sharply as a result of severe winter storms and the flooding and hurricane damage later in the year in Florida and the Gulf Coast areas, and the losses were compounded by the escalating costs of replacing damaged and stolen property. Consequently, the fire and casualty insurance companies had less funds to place in the municipal bond market, their principal investment outlet in recent years.

But the flow-of-funds development that attracted most attention was the incredible growth of the money market funds. After increasing by barely \$200 million in 1977, and expanding by \$7 billion in 1978, the money market funds skyrocketed last year, reporting an increase in assets of close to \$35 billion, and became a major vehicle for channeling investment funds through the financial markets.



Also deserving of comment is the unexpected turnaround last year in the investment actions of

foreign central banks and official institutions, notably in the Government securities market. Whereas in 1978 a large share of new U.S. Treasury debt was acquired by foreign holders, primarily in support of the dollar, last year foreigners were net sellers of Government securities—and in substantial amount.

Despite these shifts in the flow of funds and the still lofty level of interest rates, the credit and capital markets were still functioning reasonably well as 1979 came to a close. Moreover, the general expectation among market participants and investors at the start of this year was that 1980 would see a noticeable easing of conditions because of a probable weakening in economic activity.

Economic Climate in 1980

Business activity has so far proved surprisingly resistant to decline, but judging from the behavior of the leading indicators and recent developments bearing on the housing and consumer sectors the chances are that the economy will be on a downward path for at least a part of the year. This portends a changing pattern of both credit demands and financial flows that will significantly influence market conditions and investment policy decisions.

The specific assumptions underlying our assessment of the money and capital markets in the year ahead and the financial projections shown in the accompanying tables are as follows:

The Broad Picture Since there appear to be no widespread excesses and imbalances that would intensify the downturn, only a moderate decline in the economy is projected in the year ahead. And, in view of the step-up in military ordering and spending now in sight, we expect that a pickup in business activity will set in later in the year. However, because of the still rapid pace of inflation and the energy constraints, the rebound will not be robust. For the full year 1980, real GNP is projected to decline on the order of 1¼ per cent, compared with an increase of 2.3 per cent in 1979, with unemployment averaging over 7 per cent and profits falling in the neighborhood of 10 per cent. Last year's improvement in the U.S. balance-of-payments position, too, is likely to be reversed moving on through 1980.

Given an increase in unemployment and more idle plant capacity, the rise in costs and prices should tend to moderate later in the year. Even so, increasing energy prices and mounting labor costs—and, for a time, higher mortgage interest rates—point to an advance in the consumer price index for 1980 as a whole fully as large as in 1979, and probably larger. Equally important from the standpoint of the credit and capital markets, it is assumed that inflationary expectations will not soon be dampened and will remain a major factor affecting borrowing and investment decisions.

Credit-Using Sectors The most noteworthy changes in sight among the major credit-using areas of the economy are:

- **New-car sales** are projected to be down about 10 per cent and total around 9½ million units, including imports; because of higher prices, the decline in dollar terms will be smaller. Consumer spending on furniture, household appliances and other big-ticket durable goods is expected to rise, but by a much lesser amount than in 1979.
- **Housing starts** are placed at 1,375,000 units, some 370,000 below last year, with a large part of the decline in single-family homes. Consistent with the softening in demand, it is expected that housing prices will move up less rapidly this year than the overall rate of inflation, in contrast with the faster pace during 1979 and in the preceding few years.
- **Business inventories** are seen as increasing by around \$25 billion—on a book value basis—less than half the amount in 1979. While an actual rundown of stocks may occur in some industries during the first half of this year, the tight inventory control being practiced by business managements appears to rule out any broad-scale runoff of inventories.
- **Plant and equipment spending** is estimated to increase about 7½ per cent in dollar terms, or approximately half the rise in 1979, though it will show no growth in real terms. Generally speaking, capital outlays by manufacturing companies are

expected to register larger year-to-year gains than in nonmanufacturing.

Federal Reserve Policy The assumption with regard to monetary policy is that even though business activity softens broadly for a time and unemployment moves appreciably higher, the Federal Reserve will continue to give top priority to bringing down the rate of inflation and dampening inflationary expectations. Consequently, it is anticipated that monetary policy will be eased only gradually in the course of the year and to a much more limited degree than in previous periods of economic decline. Giving weight to this, we are projecting an expansion of about 9 per cent in commercial bank credit in 1980, compared with 12 per cent in 1979.

The Fiscal Outlook The expectation with regard to the budget picture is that the deficit for fiscal 1980 will at least equal, and probably exceed, the current official estimate of nearly \$40 billion, and that the projected reduction in the budget deficit to around \$16 billion in fiscal 1981 is unrealistic. The estimates of Federal expenditures in both fiscal years are more tenuous than usual, in view of the rapid inflation, the rise in defense spending and the prospective agricultural outlays stemming from the embargo on grain shipments to the Soviet Union. For the calendar year 1980, we are projecting a budget deficit of \$45 billion or so, up from \$26½ billion last year.

Credit Demands and Sources of Funds in 1980

With a general weakening in economic activity, private sector borrowing needs in 1980 almost certainly will be less than last year, although given another double-digit rise in costs and prices the demands for funds will still be sizable. Of greater significance in appraising prospects for the credit and capital markets, however, will be the changed pattern of financing that is in sight for this year.

Short-term borrowing, by both businesses and consumers, is likely to be down materially, while the total amount of long-term financing will not be far different from last year; a moderate decline in mortgage lending will be about offset by considerably more corporate bond financing, along with a step-up in equity financing. In the public sector, Treasury borrowing, after declining in 1979, will clearly be much larger. And Federal agency financing will probably be slightly higher, while

borrowing by state and local governments is expected to match last year. All in all, the volume of financing—excluding funds raised by financial intermediaries—is projected at a little over \$360 billion in 1980, about 6 per cent less than last year, but still a very large amount.

The picture here seen for the supply side of the credit and capital markets this year is equally noteworthy. Most important is that the thrift institutions, taken as a group, are expected to have no more funds to invest than they did in 1979, as they will not be as active in seeking new sources of nondeposit funds. Significant, too, is that the expansion in commercial bank credit is projected to fall well short of last year's peak growth. The growth in the money market funds undoubtedly will not come close to matching the tremendous rise in 1979. And while the contractual-type savings institutions—the insurance companies and pension funds—will again have a substantial amount of funds to put to work, the increase will not be as big as in 1979.

Foreign investors, official and nonofficial together, it is assumed, will play a more supportive part in U.S. financial markets this year than they did last. Still, our analysis indicates that individuals and institutional investors other than the major identifiable institutions will once more have to be sizable providers of funds to the credit and capital markets if the volume of securities projected to be offered in 1980 is to be absorbed.

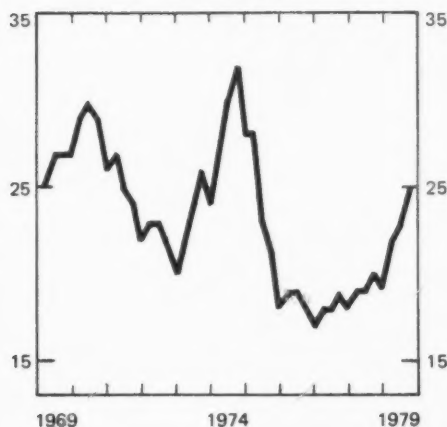
Financing at Short-Term Looking ahead, a decline in business activity and the lessening needs for financing inventories and other working capital are bound to result in some cutback in the amount of short-term borrowing by nonfinancial corporations this year. Loans from commercial banks are expected to fall well short of the amount in 1979. There is expected to be much less reliance on funds obtained from finance companies. The increase in trade debt doubtless will be smaller this year as well. And while those corporations with access will continue to make active use of the commercial paper market because of its lower cost, the volume of open market paper financing is not likely to be as big as in 1979. Altogether, short-term borrowing by corporate and noncorporate businesses combined is projected to amount to about \$40 billion in 1980, down \$23 billion.

The growth of consumer credit, too, is expected to slow, mostly reflecting the drop in automobile

sales, but also because of an expected cutback in purchases of other big-ticket consumer durables. Banks have become less aggressive in marketing credit cards in recent months, while the existing burden of instalment debt repayments and rising unemployment presumably will cause some credit card holders to ease up on their usage. As a result, consumer credit is projected to grow by no more than \$30 billion this year, or roughly 25 per cent less than in 1979. Overall, the amount of short-term funds raised, including loans by nonbudget agencies and loans against life insurance policies, is put at \$84 billion, a decline of \$37 billion from the total last year.

Corporate Bond Market Long-term financing by corporations is likely to move in the opposite direction in 1980. For one thing, business corporations generally will be financing higher dollar outlays for plant and equipment this year. But more important is that, as a result of the heavy reliance on short-term borrowing over the past two years, many manufacturing and mining companies are under considerable pressure to restructure debt and rebuild liquidity positions. This need will be accentuated by the ebbing of corporate cash flow as profits decline. The highly capital-intensive public utilities will have larger requirements for long-term money, even though the growth in their construction programs is slowing. And AT&T has already indicated it will be raising \$4½-5 billion of new money in the long-term debt market, up from under \$3½ billion in 1979.

SHORT-TERM VS. LONG-TERM DEBT
MANUFACTURING CORPORATIONS
IN PER CENT



Like last year, some of this big appetite for long-term funds may be satisfied through term loans from commercial banks. Still, business corporations are seen as issuing over \$7 billion more of bonds in the public and private placement markets, with the biggest increase in offerings by manufacturing and mining companies.

Financial concerns are seen as floating about the same volume of bonds this year. New issues by finance companies may be down again slightly, but far less than the anticipated drop in their business activity. And savings and loan associations, in all probability, will not raise as much money this year through the sale of mortgage-backed bonds. But commercial banks and their affiliates are likely to obtain a somewhat larger amount of funds in the bond market to improve their capital positions and provide for further growth. All in all, net new corporate bond financing is projected to total about \$36 billion, \$7 billion more than in 1979 and a new high; the rising cost of financing currently may delay some borrowing for a while, but activity should pick up as the year progresses. We are, in addition, projecting a modest increase this year in the amount of foreign bond financing, primarily because of increased offerings by the World Bank.

More Equity Issues It is anticipated that corporations will raise more funds in 1980 through the sale of common and preferred stock, although not as much as they should or presumably would really like to obtain. During the past few years, businesses have relied heavily on retained earnings to expand their capital base and to bolster balance sheet debt-equity ratios, with only limited recourse to the stock market. But as profits decline, corporations can be expected to turn more to the equity market; besides redressing capital structures, business managements understandably will be desirous of holding down the fixed cost of debt service.

Because they are highly dependent on their credit ratings, and because the record-high interest rates, in many cases, have depleted debt coverage, the electric utilities, in particular, are expected to do more stock financing this year. Also, AT&T will probably be issuing additional stock under employee stock purchase plans and shareholder dividend reinvestment plans. Meanwhile, fewer stock issues are likely to be retired, since corporate merger and acquisition activity is sure to

fall below that in 1979. Likewise, because of the need to build liquidity, a lesser amount will probably be bought up to be held as Treasury stock.

Less Mortgage Lending By contrast, for the first time since the recession year 1975 the amount of mortgage financing will be declining. The demand for commercial mortgage credit should again be heavy, since office building and hotel construction are still strong and, for a while at least, commercial construction in general will continue to reflect the large volume of financing commitments made during 1979. The expansion of farm mortgage credit, however, is expected to be not nearly as large as last year; agricultural income will likely be down in 1980 and, with outstanding farm debt already high, the demand for agricultural land will probably weaken.

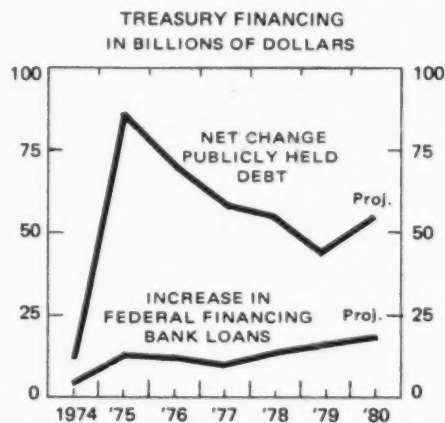
But the big change this year will occur in residential mortgage lending, where a decline of \$10 billion is projected. The existing record-high mortgage rates and a scarcity of mortgage funds, for a while at least, will reduce housing starts and slow the sales of existing homes. The price of land and prices of new and existing houses should not rise as rapidly as during the past few years. And almost certainly there will be some reduction in mortgage financing during 1980 for purposes other than housing. The net expansion of mortgage credit altogether, therefore, is put at \$148 billion, \$12 billion below last year's peak.

Municipal Financing In all likelihood, the volume of municipal bond financing will again be quite large, even though there is clearly a climate of greater restraint now regarding state and local government expenditures, and last November's elections resulted in a relatively low level of new bond approvals. Some deferments of bond issues were reported late in 1979, and a considerable number of new offerings will be required to finance new state and municipal construction programs and keep pace with inflation. The volume of hospital and pollution bonds will probably again be large. A backup of housing agency bonds is awaiting marketing under the Government transition rules regardless of the outcome of the pending Federal legislation banning such issues. In addition, new uses continue to be found for tax-exempt financing.

Consequently, we are projecting the net amount of funds to be raised in 1980 through the issuance

of tax-exempt bonds at \$23 billion, the same as last year. It is also expected that there will be a good-sized volume of housing authority and revenue and bond anticipation notes.

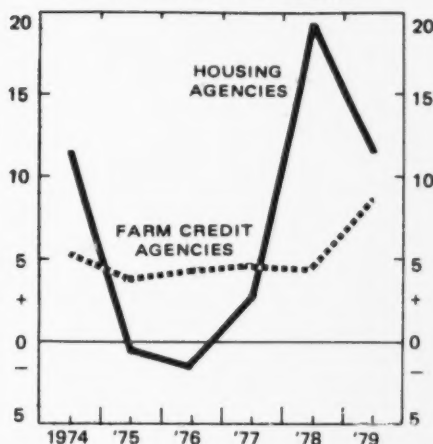
Increased Government Borrowing The change in the Treasury's borrowing requirements stands to be one of the more significant developments affecting the credit and capital markets this year. While there is considerable room for differences of opinion concerning the size of the Government's new money needs in 1980, because of the uncertain economic outlook and because of developments in Southwest Asia and in the Middle East, there is little question that they will be much higher than last year. Not only must a bigger Federal budget deficit be financed, but the needs of the Federal Financing Bank will be larger; the Fed Financing Bank will require about \$2 billion more to meet its various needs, including the greatly enlarged lending to the Rural Electrification and Telephone revolving fund, a new program to purchase state and local public housing bonds, and increased loans to foreign governments to purchase military equipment.



We estimate that, even without a tax cut, the Treasury will be in the market for around \$53 billion, up from \$33 billion in calendar 1979. Treasury borrowing is expected to be considerably higher than last year in the second half.

Besides the increase in the Treasury's borrowing requirements, the financing needs of the federally sponsored agencies promise to be somewhat greater this year. The Federal home loan banks,

FEDERAL AGENCY BORROWING
IN BILLIONS OF DOLLARS



which last year borrowed \$2.8 billion, are seen as raising only \$1.5 billion in 1980, and Fannie Mae's financing will probably not quite match the \$8.4 billion it borrowed in 1979, even with the continuous need to provide substantial support to the residential mortgage market. But, the various farm credit agencies, the other important group of nonbudget agencies, are expected, on balance, to raise \$11½ billion in the credit and capital markets this year, \$3 billion more than they borrowed during 1979. This allows for the fact that many commercial banks in farming areas are relatively loaned up now, and some insurance companies that might ordinarily provide more farm mortgage credit are presently limiting their commitments because of the recent jump in policy loans.

Institutional Investment Policies in 1980

The different pattern of financing in sight, together with the prospective shifts in the flow of funds and eroded liquidity positions, portends some changes in institutional investment policies, which have implications for conditions in various of the credit and capital markets in 1980.

Thrift Institutions Although deposit flows to the thrift institutions are expected to increase during the course of this year as the attractiveness of the money market funds or direct investment begins to dim, the high cost of obtaining deposits will nonetheless continue to put a squeeze on the earnings of the thrifts and they will remain cautious

in their borrowing and lending. Since the savings and loan associations may be reluctant to take on more advances from the Federal home loan banks, their funds available for investment will probably be down this year, as will the net additions to their mortgage portfolios. If, as expected, their deposit experience improves, the mutual savings banks are seen as being somewhat more active in the mortgage market, and, in contrast with last year, they may add modestly to their holdings of corporate bonds. Moreover, to compensate for the deterioration last year in their liquidity, all of the thrifts, including the credit unions, will undoubtedly be adding to their liquid assets.

Life Insurance Companies The sharp rise in policy loans during the latter months of last year has made life insurance company managements more careful about making new investment commitments until the direction of interest rates becomes clearer. Still, given their large cash flow and the prevailing yields available, the life companies are again expected to add substantially to their mortgage portfolios, though not quite on the scale of last year. However, the bond market, notably private placements, will remain their primary outlet for funds; net takings of corporate bonds are projected to be up slightly in 1980, as are purchases of foreign securities. The life insurance companies may also acquire a very limited amount of corporate stock this year. And they are likely to add about the same amount as last year to their liquid assets, principally holdings of agency securities.

Private Pension Funds After two years of emphasizing fixed-income obligations in adding to their investment portfolios, the private noninsured pension funds in 1979 shifted heavily toward equities, doubling their purchases of common stock from the year before. Following the disappointing performance of many bond portfolios last year, and in view of the current favorable risk-return on stocks, pension fund portfolio managers are expected to be even larger buyers of equities during 1980. Nevertheless, since they are continuing to follow a balanced portfolio policy, the private pension funds are also seen as stepping up their purchases of corporate bonds and, for the same reason, they will probably purchase more GNMA securities as well. The pension funds, however, are not likely to be large-scale buyers of

either Government or agency securities this year, though they may acquire a small amount.

Public Pension Funds The state and local retirement funds tend to pursue fairly predictable investment strategies. While many are currently reexamining their investment policies in light of the rapid inflation and the large amount of unfunded pension liabilities, for most, the pattern in 1980 will closely resemble that of last year. With more money to invest, these funds are likely to add considerably more to their holdings of corporate bonds. They will probably also show much more interest in the stock market. On balance, they are seen as acquiring slightly more mortgages, both directly and through the purchase of pass-through securities. And, in addition, the state and local retirement funds, as a group, are expected to purchase a good-sized amount of agency securities.

By contrast, with state and municipal budgets coming under increasing pressure, the state and local governments are unlikely to add to their short-term investments. The state and local credit agencies, however, will probably stay active in the mortgage area because of the continuing emphasis on aid to housing.

Fire and Casualty Insurance Companies The sharp increase in claims and expenses caused by the rapid inflation, and the accompanying lag in premium income because of the keen rate competition in the industry and the resistance of the regulatory commissions to granting rate increases, means that 1980 will be another year of reduced cash flow for the fire and casualty insurance companies. As a result, they can be expected to make some shift in their investment policies. The most important effect will be that they may not be as active in the municipal bond market, although tax-exempt securities will still remain the main investment medium. With their taxable income declining, the fire and casualty companies will probably be much bigger buyers of corporate bonds this year, and they may again be active in the stock market, especially in the purchase of preferreds, since these need not be carried at market value for reporting purposes. They may also acquire somewhat more Government securities, but not on the scale of the mid-1970s.

Investment Companies Taken as a group, the investment companies are seen as channeling a lot less into the money and capital markets than

they did last year. After their huge growth in 1979, the money market funds will certainly not expand nearly as fast; we have projected their growth in 1980 at only about half that of last year. Thus, the money market funds will be considerably smaller purchasers of short-term investments, though, on balance, the amount will still be very large. The municipal bond funds, including the unit investment trusts, on the other hand, are expected to exceed their performance in 1979 and provide as much as \$5 billion to the municipal bond market this year.

Commercial Banks Since the commercial banks face a reduced demand for loans—consumer, mortgage and business alike—greater emphasis will be placed on investments this year in expanding earning assets. Having drawn down its liquidity materially, especially at the smaller banks, the commercial banking system is seen as becoming a significant buyer of Government securities. The banks will also purchase a small amount of agency securities since the rates are relatively attractive, and they should again make sizable additions to tax-exempt portfolios, but not quite as much as in the past three years.

Drawing Some Conclusions

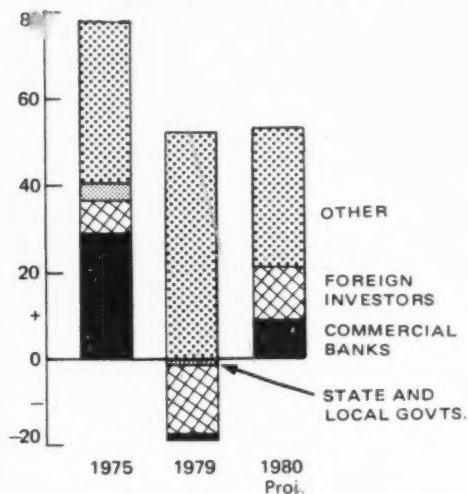
Our analysis of the projected changes in overall financing needs and in investment policies and practices leads to several broad conclusions regarding financial market conditions in 1980.

Individual Markets First, the reduced demands for short-term credit by both the business and consumer sectors should ease the pressures on the commercial banking system and on the money market as the year progresses. Secondly, the indicated large-scale interest of the pension funds and insurance companies makes it unlikely that the corporate bond market will experience any real problems during 1980, even in the face of the substantially larger amount of new offerings in sight. The municipal bond market may not be quite as comfortable this year, since it stands to lose support from its two mainstays—the fire and casualty companies and, to a lesser extent, the commercial banks. But here, too, no undue pressures are anticipated because of the greater interest of private investors in this market owing to the increased attractiveness of tax-exempt securities.

Another conclusion that emerges is that, until the thrift institutions experience a sustained pickup in

their deposit growth and are more willing to make commitments, the residential mortgage market is likely to remain tight. And, finally, our analysis indicates that the Government securities market will again require very active participation by individuals and other than the major institutional investors in order to absorb the greater volume of Treasury offerings in prospect for 1980. Likewise, in the Federal agency market, where the amount of financing is seen as rising and institutional interest may be lessening, a step-up in takings by other buyers will also be needed.

FINANCING THE TREASURY DEBT
IN BILLIONS OF DOLLARS



Interest Rate Implications The implications of these developments for interest rates seem reasonably clear. But the demand-supply forces obviously will not be the only factors that will play a role influencing the direction of money market rates and bond yields this year. In addition to the changes in the pattern of financing demands and in the way funds are channeled through the credit and capital markets, the behavior will be affected

by both monetary and fiscal policy and by market expectations.

The path of the economy is, of course, the key to the outlook. Once business activity clearly begins to weaken, the falloff in demands for short-term financing and the efforts to rebuild liquidity will put downward pressure on money market rates, and this tendency may be further reinforced by a shift in market psychology. As money market rates decline and institutional investors react by lengthening the maturity of their portfolios, the current uptrend in long-term rates should be reversed. Even so, money market rates are not likely to fall quickly, since the Federal Reserve surely will not permit a marked easing of interest rates in an inflationary environment that further threatens the precarious position of the dollar. And bond yields are sure to be sticky in an unsettled and inflationary environment.

Market Expectations Indeed, crucial to the outlook for interest rates, particularly bond yields, will be the expectations of lenders and investors regarding inflation. As demonstrated last year and again more recently, changes in market psychology can have a far greater influence for a time on the movements of interest rates than the fundamental forces of demand and supply.

The results on the inflation front have been consistently disappointing over the past year, and the projection by the Administration of a significant increase in the budget deficit for this fiscal year and the indicated step-up in military spending are being interpreted by investment officers as bringing more inflationary pressures down the road; a bigger military buildup that results in a widening of the budget deficit, or an escalation of wage-cost pressures, will certainly accentuate this concern. Unless and until inflation psychology is materially dampened—and there are no convincing reasons for believing this will happen soon—monetary policy will have to stay tight and interest rates on fixed income securities will have to remain high to attract investors. ■

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Technical Note to Tables

The summary tables 1, 2 and 3 include in "total uses" only funds raised by the nonfinancial sectors. Funds raised by financial intermediaries, whether through marketable instruments or by bookkeeping entries, have been excluded. "Total gross sources" also shown in these tables does include funds provided to the financial intermediaries through the credit markets; however, these funds are then deducted in order to arrive at "total net sources."

The financial intermediaries include insurance companies and pension funds, thrift institutions, investment companies, finance companies, real estate investment trusts, commercial banks and nonbudget Federal credit agencies. The proliferation of these financial intermediaries and their increasing financing through the use of marketable debt and equity instruments have pointed up their important role in channeling credit into alternative uses. These activities do not, however, add to the total available supply of, or the total demand for, credit.

When financial intermediaries raise funds in various markets, they obviously compete with the nonfinancial sectors for the available supply. In order to take full account of pressures in these markets, total funds raised shown in the tables dealing with specific markets, i.e., corporate stock, corporate bond, open market paper and Federal agency, include funds raised by the financial intermediaries.

SUMMARY OF FINANCING — TOTAL FUNDS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Investment funds	114.8	119.5	145.9	192.8	216.8	232.8	224.8
Short-term funds	62.5	2.9	58.2	93.3	124.8	120.8	84.1
U.S. Government and budget agency securities, privately held	10.2	78.1	59.4	51.5	46.8	32.2	52.8
Total uses	187.5	200.5	263.5	337.6	388.5	385.8	361.7
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	15.2	19.0	26.7	29.4	33.4	34.5	34.8
Private noninsured pension funds	7.9	14.1	12.5	16.5	16.0	22.0	24.8
State and local retirement funds	8.0	10.5	11.7	14.4	16.2	18.8	23.3
Fire and casualty insurance companies	4.4	6.0	12.4	19.2	19.2	18.5	17.0
Total	35.5	49.6	63.4	79.5	84.8	93.8	99.9
Thrift institutions							
Savings and loan associations	19.6	36.6	51.9	64.9	57.2	50.4	47.9
Mutual savings banks	3.4	10.9	12.5	11.7	7.9	4.5	6.2
Credit unions	3.0	5.0	6.6	8.4	9.6	4.5	5.2
Total	26.0	52.5	71.1	85.1	74.7	59.4	59.3
Investment companies	2.0	3.1	1.4	2.9	5.2	21.7	11.7
Other financial intermediaries							
Finance companies	5.5	2.0	8.3	16.2	17.7	21.7	12.4
Real estate investment trusts	2	-4.8	-3.8	-2.4	-1.0	-4	-2
Mortgage companies	-1.4	1.2	2.7	3.8	3.0	2.5	2.0
Total	4.3	-1.6	7.2	17.6	19.7	23.8	14.2
Commercial banks	64.4	31.5	66.3	89.9	125.9	125.5	104.7
Business							
Business corporations	12.3	12.6	14.8	10.3	9.6	16.6	11.8
Noncorporate business	7	8	1.2	1.3	1.5	1.7	1.6
Total	13.0	13.4	16.0	11.6	11.1	18.3	13.4
Government							
U.S. Government	4.6	6.4	1.2	2.2	1.6	6.3	5.6
Nonbudget agencies	12.8	6.6	6.9	2.8	15.7	17.9	19.2
State and local general funds	-3	8.6	8.8	11.7	15.7	4.2	4.5
Total	17.1	21.6	16.9	16.7	33.1	28.4	29.3
Foreign investors	12.2	10.4	17.9	42.1	40.1	-12.3	15.5
Individuals and others	36.8	25.3	18.5	19.7	43.1	77.1	56.6
Total gross sources	211.3	205.8	278.7	365.1	437.6	435.7	404.6
Less: Funds raised by financial intermediaries							
Investment funds	5.5	4.4	8.2	9.9	10.8	9.3	9.3
Short-term funds	4.7	-8	5.0	11.6	14.4	20.5	12.3
Nonbudget agency securities, privately held	13.6	1.8	2.0	6.0	23.9	20.1	21.3
Total	23.8	5.3	15.2	27.5	49.1	49.9	42.9
Total net sources	187.5	200.5	263.5	337.6	388.5	385.8	361.7

SUMMARY OF FINANCING — INVESTMENT FUNDS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Corporate securities							
Bonds	19.7	27.2	22.8	21.0	18.9	20.8	28.0
Stocks	4.2	10.7	10.0	2.7	2.6	3.0	5.4
Total	23.9	37.9	32.8	23.7	21.5	23.8	33.4
State and local securities							
	17.1	16.3	17.7	23.9	26.8	22.2	23.2
Real estate mortgages							
	60.5	57.2	87.1	134.0	149.0	160.0	148.0
Foreign securities							
	2.0	6.5	9.1	5.5	3.5	4.3	4.7
Term loans							
Commercial banks	11.0	1.3	-1.2	5.2	15.7	22.0	15.0
Banks for cooperatives	3	3	5	5	4	5	5
Total	11.3	1.6	-7	5.7	16.1	22.5	15.5
Total	114.8	119.5	145.9	192.8	216.8	232.8	224.8
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	11.4	15.1	23.6	26.2	27.6	27.8	28.4
Private noninsured pension funds	5.7	11.8	11.3	13.5	15.2	18.3	21.8
State and local retirement funds	8.7	9.8	9.6	10.2	9.5	11.6	15.4
Fire and casualty insurance companies	3.8	3.3	9.0	15.7	18.3	17.0	15.5
Total	29.6	40.0	53.5	65.6	70.7	74.7	81.1
Thrift institutions							
Savings and loan associations	19.1	32.6	47.0	60.7	55.8	49.9	45.0
Mutual savings banks	3.6	7.8	10.3	11.1	8.8	4.4	6.0
Credit unions	5	1	9	2.0	1.7	1.4	1.7
Total	23.2	40.5	58.2	73.9	66.3	55.7	52.7
Investment companies							
	1.3	2.6	1.9	2.2	9	2.5	3.5
Other financial intermediaries							
Mortgage companies	-1.4	1.2	2.7	3.8	3.0	2.5	2.0
Real estate investment trusts	2	-4.8	-3.8	-2.4	-1.0	-4	-2
Total	-1.2	-3.6	-1.1	1.4	2.0	2.1	1.8
Commercial banks							
	30.6	8.9	16.4	43.8	61.6	67.0	51.5
Business corporations							
	6	-2	-1.1	-	2	3	2
Government							
U.S. Government	4.6	6.4	1.2	2.2	1.6	6.3	5.6
Nonbudget agencies	10.5	5.6	3.4	4.0	12.6	14.4	15.2
State and local general funds	3.0	4.0	3.7	8	3.6	4.2	4.0
Total	18.1	16.1	8.3	6.9	17.8	24.9	24.8
Foreign investors							
	1.1	5.3	3.1	3.5	2.8	7	-5
Individuals and others							
	17.1	14.2	14.9	5.3	5.3	14.2	19.0
Total gross sources	120.3	123.9	154.1	202.7	227.6	242.1	234.1
Less: Funds raised by financial intermediaries							
Bonds	5.4	4.7	7.1	9.0	9.3	7.9	7.6
Stocks	1	-3	1.1	9	1.5	1.4	1.7
Total	5.5	4.4	8.2	9.9	10.8	9.3	9.3
Total net sources	114.8	119.5	145.9	192.8	216.8	232.8	224.8

SUMMARY OF FINANCING — SHORT-TERM FUNDS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Open market paper	13.9	-2.3	6.0	5.3	12.0	22.2	13.5
Consumer credit	9.9	9.7	25.5	41.5	50.6	41.6	30.2
Policy loans	2.7	1.6	1.4	1.7	2.6	4.7	3.5
Loans of nonbudget agencies	2.3	1.3	1.8	1.3	1.3	3.0	4.0
Bank loans to business	20.5	-9.6	5.8	19.2	24.8	24.9	17.0
Other bank loans	4.9	-2	6.2	5.5	15.1	7.5	6.0
Other business credit							
Net trade credit	3.5	3	6.1	8.5	10.1	8.5	5.0
Finance company loans	4.8	2.1	5.4	10.3	8.3	8.4	4.9
Total	8.3	2.4	11.5	18.8	18.4	16.9	9.9
Total uses	62.5	2.9	58.2	93.3	124.8	120.8	84.1
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	3.6	2.2	1.6	1.6	3.7	3.7	3.5
Private noninsured pension funds	1.8	-1.5	-1.0	3	8	1.0	7
Total	5.4	7	6	1.9	4.5	4.7	4.2
Thrift institutions							
Savings and loan associations	7	1.4	1.6	1.5	1.7	3.8	1.5
Mutual savings banks	3	3	7	5	1	8	2
Credit unions	2.3	3.8	5.5	6.4	8.3	3.0	2.5
Total	3.3	5.5	7.8	8.4	10.1	7.6	4.2
Investment companies	2	-3	-7	8	3.9	15.1	6.7
Finance companies	5.5	2.0	8.3	16.2	17.7	21.7	12.4
Commercial banks	33.4	-7.2	30.6	49.2	65.4	54.0	40.7
Business							
Business corporations	9.4	4.1	13.6	16.4	15.7	17.0	11.1
Noncorporate business	7	8	1.2	1.3	1.5	1.7	1.6
Total	10.1	4.9	14.8	17.7	17.2	18.7	12.7
Nonbudget agencies	2.3	1.3	1.8	1.3	1.3	3.0	4.0
Foreign investors	6.6	-2.6	2.7	4.4	7.9	3.5	3.0
Individuals and others	3	-2.3	-2.6	5.1	11.3	13.0	8.5
Total gross sources	67.2	2.1	63.2	104.9	139.2	141.3	96.4
Less: Funds raised by financial intermediaries							
Open market paper	2.3	8	2.1	9.7	14.5	18.0	10.3
Financial bank loans	2.4	-1.6	2.9	1.9	-1	2.5	2.0
Total	4.7	-8	5.0	11.6	14.4	20.5	12.3
Total net sources	62.5	2.9	58.2	93.3	124.8	120.8	84.1

U.S. GOVERNMENT AND AGENCY SECURITIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
U.S. Government and budget agency securities, privately held							
U.S. Government securities	10.0	78.4	60.1	52.1	48.0	33.2	33.0
Budget agency securities	1	-3	-7	-6	-1.2	-1.0	-2
Total	10.2	78.1	59.4	51.5	46.8	32.2	52.8
Nonbudget agency securities, privately held							
	13.6	1.8	2.0	6.0	23.9	20.1	21.3
U.S. Government and agency securities, privately held	23.8	79.9	61.4	57.5	70.7	52.3	74.1
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	1	1.7	1.5	1.6	2.0	3.0	2.9
Private noninsured pension funds	4	3.7	2.1	2.7	-1	2.7	2.3
State and local retirement funds	-7	7	2.1	4.2	6.7	7.2	7.9
Fire and casualty insurance companies	6	2.7	3.4	3.5	9	1.5	1.5
Total	5	8.8	9.2	12.0	9.6	14.4	14.6
Thrift institutions							
Savings and loan associations	-2	2.6	3.3	2.7	-3	-3.3	1.4
Mutual savings banks	-5	2.8	1.6	1	-1.0	-7	--
Credit unions	3	1.1	3	-1	-5	1	1.0
Total	-4	6.5	5.1	2.8	-1.8	-3.9	2.4
Investment companies							
	5	8	2	-1	4	4.1	1.5
Commercial banks							
	4	29.8	19.3	-3.1	-1.1	4.5	12.5
Business corporations							
	2.3	8.7	2.3	-6.1	-6.3	-7	5
Government							
Nonbudget agencies	--	-3	1.7	-2.5	1.8	.5	--
State and local general funds	-3.3	4.6	5.1	10.9	12.1	--	5
Total	-3.3	4.3	6.8	8.4	13.9	5	5
Foreign investors							
	4.5	7.6	12.2	34.2	29.4	-16.5	13.0
Individuals and others							
	19.3	13.3	6.3	9.4	26.5	49.9	29.1
Total	23.8	79.9	61.4	57.5	70.7	52.3	74.1

U.S. GOVERNMENT SECURITIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
U.S. Government debt, publicly held	12.0	85.8	69.1	57.6	55.1	40.2	
Less: Holdings of Federal Reserve banks	2.0	7.4	9.0	5.5	7.1	7.0	7.0
U.S. Government debt, privately held	10.0	78.4	60.1	52.1	48.0	33.2	53.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	-1	1.4	6	-1	-5	5	8
Private noninsured pension funds	-7	3.4	1.6	2.1	-1	9	7
State and local retirement funds	-1.1	1.0	2.0	2.3	4.2	5.1	5.4
Fire and casualty insurance companies	4	2.5	3.1	3.2	9	1.3	1.5
Total	-1.5	8.3	7.3	7.6	4.5	7.8	8.4
Thrift institutions							
Savings and loan associations	--	1.8	2.7	1.4	-1.7	-4.5	--
Mutual savings banks	-4	2.2	1.0	1	-1.0	-1.0	-2
Credit unions	4	8	4	-5	-6	--	4
Total	--	4.7	4.1	9	-3.3	-5.5	2
Investment companies	5	8	2	-1	4	4.1	1.5
Commercial banks	-2.9	28.6	18.7	-1.9	-6.5	-8	9.0
Business corporations	9	9.5	2.3	-5.8	-7.1	-1.0	--
Government							
Nonbudget agencies	--	-3	1.7	-2.5	1.8	5	--
State and local general funds	-3.4	4.2	5.4	10.3	10.0	-1.5	--
Total	-3.4	3.9	7.1	7.8	11.8	-1.0	--
Foreign investors	4.1	7.7	11.6	31.5	28.2	-16.8	12.0
Individuals and others	12.3	14.9	8.8	12.1	19.9	46.4	21.9
Total	10.0	78.4	60.1	52.1	48.0	33.2	53.0

Source: U.S. Treasury Department

FEDERAL AGENCY SECURITIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Budget agencies							
Export-Import Bank	2	-3	-3	-4	-9	-7	--
Government National Mortgage Association	-1	-1	-1	-4	-6	-2	-2
Tennessee Valley Authority	-3	-1	-2	--	--	-1	--
Other*	4	1	--	--	--	--	--
Total	2	-4	-6	-8	-15	-10	-2
Less: U.S. Government investment accounts	--	--	--	-1	-3	--	--
Federal Reserve banks	1	--	1	--	--	--	--
Total, privately held	1	-3	-7	-6	-12	-10	-2
Nonbudget agencies							
Banks for cooperatives	9	1	7	1	4	-41	--
Federal home loan banks	6.5	-30	-21	1.5	9.2	2.8	1.5
Federal Home Loan Mortgage Corporation	-2	5	--	--	7	4	5
Federal intermediate credit banks	1.7	7	1.2	7	3	-8.8	-9
Federal land banks	2.6	2.3	2.1	2.0	1.2	-4.4	-3.6
Federal National Mortgage Association	5.2	1.8	6	1.3	9.2	8.4	7.8
Federal farm credit banks	--	5	3	1.8	2.5	26.0	16.0
Total**	16.6	2.7	2.8	7.4	23.6	20.3	21.3
Less: Federal Reserve banks	3.0	9	9	1.5	-3	2	--
Total, privately held	13.6	1.8	2.0	6.0	23.9	20.1	21.3
Total	13.8	1.5	1.3	5.4	22.8	19.1	21.1
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	2	4	9	1.7	2.5	2.5	2.1
Private noninsured pension funds	1.1	3	6	6	--	1.8	1.6
State and local retirement funds	4	-3	1	1.9	2.5	2.1	2.5
Fire and casualty insurance companies	3	2	3	2	--	2	--
Total	2.0	6	1.9	4.4	5.1	6.6	6.2
Thrift institutions							
Savings and loan associations	-2	8	6	1.3	1.4	1.2	1.4
Mutual savings banks	-1	6	5	1	--	3	2
Credit unions	-1	4	-1	5	1	1	6
Total	-4	1.8	1.0	1.8	1.5	1.6	2.2
Commercial banks	3.3	1.2	6	-1.2	5.4	5.3	3.5
Business corporations	1.4	-8	--	-4	7	3	5
State and local general funds	1	4	-3	6	2.1	1.5	5
Foreign investors	4	-1	6	2.7	1.2	3	1.0
Individuals and others	7.0	-1.6	-2.5	-2.6	6.7	3.5	7.2
Total	13.8	1.5	1.3	5.4	22.8	19.1	21.1

*Includes Federal Housing Administration, Government Services Administration, U.S. Postal Service and Washington Metropolitan Area Transit.

**Total Includes Student Loan Marketing Association.

Source: U.S. Treasury Department.

CORPORATE BONDS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Gross new issues							
Manufacturing and extractive	10.2	17.3	13.6	12.7	10.4	11.0	15.2
Transportation	8	2.6	3.5	1.3	1.5	2.0	2.8
Electric, gas and water	8.8	9.6	8.2	7.7	7.1	8.3	9.2
Communication	3.7	3.4	2.6	3.0	3.3	4.0	5.0
Financial and real estate	6.2	5.7	8.5	9.6	10.0	9.2	8.9
Commercial and other	1.6	1.9	2.6	3.2	3.4	3.1	3.5
Total	31.4	40.5	39.0	37.5	35.7	37.6	44.6
Less: Retirements							
Conversions	5	1.0	9	1.0	1.0	1.2	1.0
Other	5.8	7.6	8.2	6.5	6.5	7.7	8.0
Total	6.3	8.6	9.1	7.5	7.5	8.9	9.0
Net new issues	25.1	31.9	29.9	30.0	28.2	28.7	35.6
Funds raised by:							
Financial intermediaries							
Finance companies	1.9	1.1	4.7	3.7	7.6	4.3	4.0
Real estate investment trusts	2	--	--	--	--	--	--
Commercial banks	2.3	1.3	1.9	2.3	1.1	2.4	2.6
Other	1.0	2.3	7	3.1	8	1.2	1.0
Total	5.4	4.7	7.1	9.0	9.3	7.9	7.6
Business corporations	19.7	27.2	22.8	21.0	18.9	20.8	28.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	3.6	7.9	13.2	16.9	15.9	13.5	14.0
Private noninsured pension funds	2.7	4.6	2.3	6.2	7.4	6.3	8.3
State and local retirement funds	7.5	5.0	4.0	5.3	4.7	6.5	8.7
Fire and casualty insurance companies	2.0	2.1	3.8	3.4	1.4	1.5	3.0
Total	15.8	19.6	23.3	31.8	29.4	27.8	34.0
Mutual savings banks	8	3.5	2.8	1.2	--	--	2
Investment companies	6	1.6	1.4	2.1	--	1.3	9
Commercial banks	1.0	1.8	--	--	--	6	--
Foreign investors	5	7	3	8	4	--	--
Individuals and others	6.4	4.7	2.6	--	--	6	1.0
Total	25.1	31.9	29.9	30.0	28.2	28.7	35.6
MEMORANDUM							
Convertible bonds							
Gross new issues offered for cash	5	1.3	1.0	9	4	2.2	1.5
Conversions	5	1.0	9	1.0	1.0	1.2	1.0
Net increase in outstandings*	--	3	1	--	--	1.0	5

*Excludes convertible bonds issued in exchange for stocks.

Source: Securities and Exchange Commission.

CORPORATE STOCKS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Gross new issues							
Manufacturing and extractive	2.6	4.0	5.1	4.8	5.4	5.8	6.2
Transportation	1	1	1	5	4	4	5
Electric, gas and water	3.8	6.1	6.2	6.1	5.3	6.0	7.0
Communication	4	1.1	9	1.5	4	7	9
Finance and real estate	5	6	1.0	1.2	1.8	1.6	2.0
Commercial and other	6	9	8	9	9	1.2	1.0
Total	8.0	12.8	14.1	15.0	14.2	15.7	17.6
Less: Retirements							
Exchanges for debt	6	2	4	3	2	3	4
Other*	3.1	2.2	2.7	11.1	9.9	11.0	10.1
Total	3.7	2.4	3.1	11.4	10.1	11.3	10.5
Net new issues	4.3	10.4	11.1	3.6	4.1	4.4	7.1
Funds raised by:							
Financial intermediaries							
Real estate investment trusts	-9	-1.3	-5	3	4	6	7
Commercial banks	1.0	1.0	1.6	6	1.1	8	1.0
Total	1	-3	1.1	9	1.5	1.4	1.7
Business corporations	4.2	10.7	10.0	2.7	2.6	3.0	5.4
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	2.2	2.1	3.1	1.9	7	5	7
Private noninsured pension funds	2.3	5.8	7.3	4.4	5.3	10.5	11.5
State and local retirement funds	2.6	2.4	3.1	3.7	2.7	3.0	4.6
Fire and casualty insurance companies	-2	-1.3	1	1.9	3.4	3.5	3.5
Total	6.9	9.0	13.5	12.0	12.1	17.5	20.3
Mutual savings banks	3	2	1	4	--	--	--
Investment companies	-3	-1.1	-2.5	-3.8	-1.6	-2.9	-2.4
Foreign investors	5	4.7	2.8	2.7	2.4	1.5	--
Individuals and others	-3.1	-2.3	-2.8	-7.6	-8.9	-11.7	-10.8
Total	4.3	10.4	11.1	3.6	4.1	4.4	7.1
MEMORANDUM							
Net new issues	4.3	10.4	11.1	3.6	4.1	4.4	7.1
Conversions	5	1.0	9	1.0	1.0	1.2	1.0
Net of conversions	3.8	9.4	10.2	2.6	3.1	3.2	6.1

*Called for payment, repurchases and retirements in connections with liquidations, reorganizations and mergers.

Source: Securities and Exchange Commission.

STATE AND LOCAL GOVERNMENT OBLIGATIONS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Long-term debt							
New offerings:							
Industrial bonds	2.5	3.0	3.0	4.3	4.1	4.2	4.5
Other	20.3	26.3	30.8	40.7	42.1	37.7	37.7
Total	22.8	29.3	33.8	45.1	46.2	41.9	42.2
Less: Retirements, refundings and adjustments*	9.1	12.9	14.1	18.8	18.5	19.0	19.2
Net	13.7	16.4	19.7	26.3	27.7	22.9	23.0
Short-term debt							
New offerings	29.0	29.0	21.9	21.3	21.6	20.9	24.5
Less: Retirements and adjustments*	26.3	29.3	26.0	23.9	21.0	21.9	24.5
Net	2.7	-3	-4.1	-2.6	6	-1.0	-
U.S. Government loans							
	7	2	2.0	2	-1.6	3	2
Total	17.1	16.3	17.7	23.9	26.8	22.2	23.2
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	3	8	1.1	5	4	-	-
State and local retirement funds	-7	1.9	1.4	2	4	1	-
Fire and casualty insurance companies	1.9	2.4	5.1	10.3	13.5	12.0	9.0
Total	1.5	5.2	7.5	11.0	14.2	12.1	9.0
Thrift institutions							
Savings and loan associations	3	6	-	-	1	1	1
Mutual savings banks	-	6	9	4	5	-3	-2
Total	3	12	9	4	6	-2	-1
Investment companies							
	1.0	2.2	3.0	3.9	3.1	4.1	5.0
Commercial banks							
	5.5	1.8	3.0	9.2	9.6	9.0	8.5
Business corporations							
	6	-2	-1.1	-	2	3	2
Government							
U.S. Government	7	2	2.0	2	-1.6	3	2
State and local general funds	5	2.4	2.4	-1	1.0	-3	-
Total	1.2	2.6	4.4	1	-6	-	2
Individuals and others							
	7.0	3.5	-	-6	-3	-3.1	4
Total	17.1	16.3	17.7	23.9	26.8	22.2	23.2
MEMORANDUM							
Structures							
	33.8	34.7	32.3	31.1	37.6	39.5	42.0

*Residual; includes adjustments for issues offered in the calendar year before issuance.

Sources: Federal Reserve Flow of Funds Accounts, Securities Industry Association, *The Daily Bond Buyer* and U.S. Department of Commerce, National Income Accounts.

TOTAL MORTGAGES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Residential mortgages							
Home	33.3	41.4	65.4	99.5	105.3	106.0	97.0
Multifamily	6.9	-	1.9	7.3	10.2	9.0	8.5
Total	40.2	41.4	67.3	106.8	115.5	115.0	105.5
Commercial mortgages							
	15.3	11.2	13.6	18.4	23.3	27.5	25.7
Farm mortgages							
	5.0	4.6	6.1	8.8	10.2	17.5	16.8
Total	60.5	57.2	87.1	134.0	149.0	160.0	148.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	4.9	2.9	2.4	5.3	8.9	13.0	12.7
Private noninsured pension funds	.7	1.5	1.8	2.9	2.5	1.5	2.0
State and local retirement funds	- .7	.5	1.1	1.0	1.7	2.0	2.1
Total	4.9	4.9	5.3	9.2	13.1	16.5	16.8
Thrift institutions							
Savings and loan associations	18.8	32.0	47.0	60.7	55.7	49.8	44.9
Mutual savings banks	2.6	3.5	6.5	9.1	8.2	5.5	6.0
Credit unions	.5	1	.9	2.0	1.7	1.4	1.7
Total	21.8	35.6	54.4	71.9	65.7	56.7	52.6
Other financial intermediaries							
Mortgage companies	-1.4	1.2	2.7	3.8	3.0	2.5	2.0
Real estate investment trusts	.2	-4.8	-3.8	-2.4	-1.0	-4	-2
Total	-1.2	-3.6	-1.1	1.4	2.0	2.1	1.8
Commercial banks							
	13.1	4.0	15.2	29.4	36.6	35.4	28.0
Government							
U.S. Government	3.9	6.2	-8	2.0	3.2	6.0	5.4
Nonbudget agencies	10.2	5.3	2.9	3.5	12.2	13.9	14.7
State and local general funds	2.5	1.6	1.3	.9	2.6	4.5	4.0
Total	16.6	13.2	3.5	6.4	18.0	24.4	24.1
Individuals and others							
	5.3	3.1	9.8	15.7	13.6	24.9	24.7
Total	60.5	57.2	87.1	134.0	149.0	160.0	148.0
MEMORANDUM							
Mortgage pools*							
Government National Mortgage Association	3.9	6.5	12.3	14.3	9.5	18.0	17.0
Farmers Home Administration	1.9	3.0	2.3	2.2	3.6	5.0	4.0
Federal Home Loan Mortgage Corporation	-	.8	1.1	3.9	5.3	3.0	3.5
Total	5.8	10.3	15.7	20.5	18.3	26.0	24.5

*Ownership of mortgage pools has been allocated among the investor groups.

HOME MORTGAGES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Total 1- to 4-family mortgages	33.3	41.4	65.4	99.5	105.3	106.0	97.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	-1.4	-1.4	-1.5	-1.4	-3	8	2
Private noninsured pension funds	.7	1.5	1.8	2.7	2.1	1.3	1.8
State and local retirement funds	--	--	--	2	5	3	3
Total	-7	1	3	1.6	2.3	2.4	2.3
Thrift institutions							
Savings and loan associations	15.0	25.6	39.5	51.9	49.1	43.3	38.7
Mutual savings banks	1.1	1.9	5.5	7.2	6.3	4.3	4.6
Credit unions	5	1	9	2.0	1.7	1.4	1.7
Total	16.6	27.6	45.8	61.1	57.1	49.0	45.0
Other financial intermediaries							
Mortgage companies	-7	2.0	3.5	3.9	2.7	1.5	1.5
Real estate investment trusts	-2	-5	-2	-2	-1	-1	--
Total	-9	1.5	3.3	3.7	2.6	1.4	1.5
Commercial banks	6.9	2.3	9.7	20.6	23.3	21.5	16.5
Government							
U.S. Government	2.6	4.3	-1.8	9	1.0	1.8	1.6
Nonbudget agencies	5.5	2.5	5	5	9.0	8.7	9.7
State and local general funds	.7	.8	.8	.6	2.0	2.8	2.5
Total	8.8	7.7	-6	2.0	12.0	13.3	13.8
Individuals and others	2.6	2.3	6.9	10.5	7.9	18.4	17.9
Total	33.3	41.4	65.4	99.5	105.3	106.0	97.0

MEMORANDA

Private residential construction put in place

New housing units	40.6	34.4	47.3	65.7	75.8	77.2	68.0
Other	9.7	12.1	13.2	15.2	17.6	20.8	23.5
Total	50.4	46.5	60.5	81.0	93.4	98.0	91.5

(In thousands of units)

Private 1-family housing starts	888	892	1,162	1,451	1,433	1,193	925
Manufacturers' mobile home shipments	329	213	246	277	276	275	260

Sources: Federal Reserve, Federal Home Loan Bank Board, Bureau of the Census, U.S. Department of Commerce, Mobile Homes Manufacturers Association and Bankers Trust Company.

MULTIFAMILY, COMMERCIAL AND FARM MORTGAGES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Multifamily mortgages*	6.9	--	1.9	7.3	10.2	9.0	8.5
Commercial mortgages	15.3	11.2	13.6	18.4	23.3	27.5	25.7
Farm mortgages	5.0	4.6	6.1	8.8	10.2	17.5	16.8
Total	27.2	15.8	21.6	34.5	43.7	54.0	51.0
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	6.3	4.4	3.9	6.7	9.2	12.2	12.5
Private noninsured pension funds	--	--	--	.1	.4	.2	.2
State and local retirement funds	-7	5	1.1	.8	1.2	1.7	1.8
Total	5.6	4.9	5.0	7.6	10.8	14.1	14.5
Thrift institutions							
Savings and loan associations	3.7	6.5	7.6	8.9	6.6	6.5	6.2
Mutual savings banks	1.5	1.5	1.0	1.9	1.9	1.2	1.4
Total	5.2	8.0	8.6	10.8	8.5	7.7	7.6
Other financial intermediaries							
Mortgage companies	-7	-8	-8	--	3	1.0	.5
Real estate investment trusts	4	-4.4	-3.5	-2.2	-9	-3	-2
Total	-3	-5.2	-4.3	-2.2	-6	.7	.3
Commercial banks	6.2	1.7	5.5	8.8	13.3	13.9	11.5
Government							
U.S. Government	1.3	1.9	1.1	1.1	2.2	4.2	3.8
Nonbudget agencies	4.7	2.8	2.4	3.0	3.2	5.2	5.0
State and local general funds	1.8	.8	.5	.3	.6	1.7	1.5
Total	7.8	5.5	4.0	4.4	6.0	11.1	10.3
Individuals and others	2.7	.9	2.8	5.2	5.7	6.5	6.8
Total	27.2	15.8	21.6	34.5	43.7	54.0	51.0
MEMORANDA							
Private multifamily housing starts (in thousands of units)	450	268	375	536	587	549	450
Commercial construction put in place	15.9	12.8	12.8	14.8	18.6	23.5	24.0

*Comprises mortgages on residential structures of five or more units

Sources: Federal Reserve, Bureau of the Census, U.S. Department of Commerce and Bankers Trust Company

OPEN MARKET PAPER

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Commercial paper	6.8	-1.5	4.4	11.9	18.3	28.4	16.3
Bankers' acceptances	9.6	2	3.8	2.9	8.2	11.8	7.5
Finance bills	-2	-3	--	1	--	--	--
Total open market paper	16.2	-1.5	8.1	14.9	26.5	40.2	23.8
Funds raised by:							
Financial intermediaries							
Finance companies	1.0	1.5	1.5	5.9	4.9	8.7	4.2
Real estate investment trusts	-3.3	1	-3	--	1	1	1
Commercial bank holding companies and other affiliates	2.0	--	-8	1.4	6.6	4.6	3.0
Other*	2.6	-9	1.8	2.4	2.9	4.6	3.0
Total	2.3	8	2.1	9.7	14.5	18.0	10.3
Nonfinancial sectors							
Business corporations	5.3	-2.8	2.8	2.2	4.1	11.1	6.0
Foreigners	7.3	3	1.9	2.4	6.6	10.0	7.0
Noncorporate business	1.3	2	1.3	6	1.2	1.1	5
Total	13.9	-2.3	6.0	5.3	12.0	22.2	13.5
FUNDS SUPPLIED							
Insurance companies and pension funds							
Life insurance companies	1.0	6	3	-2	1.1	-1.0	--
Private noninsured pension funds	1.8	-1.5	-1.0	3	8	1.0	7
Total	2.8	-9	-7	1	1.9	--	7
Thrift institutions							
Savings and loan associations	-1	2	4	2	5	1.8	5
Mutual savings banks	1	1	4	--	-6	8	4
Total	--	3	8	2	-1	2.6	9
Investment companies	2	-3	-7	8	3.9	15.1	6.7
Commercial banks	2.2	1.1	3.7	3	-1.3	1.5	1.0
Business corporations	4.1	3.1	5.0	4.0	3.0	4.5	3.0
Foreign investors	6.6	-2.6	2.7	4.4	7.9	3.5	3.0
Individuals and others	3	-2.3	-2.6	5.1	11.3	13.0	8.5
Total	16.2	-1.5	8.1	14.9	26.5	40.2	23.8

*Includes retail captive finance companies, savings and loan associations and mortgage brokers

Source: Federal Reserve Bank of New York.

CONSUMER CREDIT

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS RAISED							
Instalment credit							
Extensions - by type:							
Automobile	46.5	52.4	63.7	75.6	89.0	91.0	83.0
Revolving bank credit	21.3	24.5	30.5	38.3	51.5	61.0	65.0
Gasoline credit card	11.9	12.5	13.4	14.6	16.1	19.5	22.0
Mobile home	5.8	4.3	4.9	5.4	6.1	6.4	6.5
All other	87.2	86.7	98.5	120.1	135.6	144.3	151.5
Total	172.8	180.4	211.0	254.1	298.4	322.2	328.0
Less: Liquidations	163.3	172.7	189.4	218.8	253.5	287.4	305.0
Net	9.5	7.8	21.6	35.3	44.8	34.8	23.0
Noninstalment credit*	4	1.9	3.9	6.2	5.8	6.8	7.2
Total consumer credit	9.9	9.7	25.5	41.5	50.6	41.6	30.2
FUNDS SUPPLIED							
Thrift institutions							
Savings and loan associations	8	1.2	1.2	1.3	1.2	2.0	1.0
Mutual savings banks	2	2	3	5	7	--	--
Credit unions	2.3	3.8	5.5	6.4	8.3	3.0	2.5
Total	3.3	5.2	7.0	8.2	10.2	5.0	3.3
Finance companies - instalment	7	--	2.9	5.9	9.4	13.3	7.5
Commercial banks							
Instalment	4.1	2.9	10.8	18.6	23.8	13.1	10.0
Noninstalment	--	2	1.2	3.6	3.1	4.5	4.7
Total	3.4	3.1	12.0	22.3	26.9	17.6	14.7
Business corporations							
Instalment	1.5	.3	1.2	2.9	1.6	3.4	2.1
Noninstalment	3	4	1.3	1.0	9	6	1.0
Total	1.8	7	2.5	3.9	2.6	4.0	3.1
Noncorporate business							
Instalment	--	--	--	1	1	2	1
Noninstalment	7	.9	1.2	1.3	1.3	1.5	1.5
Total	7	8	1.2	1.3	1.5	1.7	1.6
Total	9.9	9.7	25.5	41.5	50.6	41.6	30.2

*Comprises single-payment loans to individuals, charge accounts and service credit.

Source: Federal Reserve.

SOURCES AND USES OF FUNDS — LIFE INSURANCE COMPANIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Income							
Premium receipts	52.6	58.6	66.4	72.3	78.8	82.5	86.0
Net investment income	15.1	16.5	18.8	21.7	25.3	27.5	29.7
Other income	2.3	3.0	3.4	4.0	4.2	4.5	4.8
Total	70.0	78.0	88.6	98.0	108.2	114.5	120.5
Outgo							
Benefit payments	37.1	40.4	43.3	46.8	50.5	52.5	54.5
Operating expenses, taxes and other	15.3	15.4	16.3	18.4	20.9	23.5	26.5
Total	52.4	55.8	59.6	65.2	71.4	76.0	81.0
Increase in admitted assets*	17.6	22.2	28.9	32.7	36.8	38.5	39.5
USES OF FUNDS							
Investment funds							
Corporate bonds	3.6	7.9	13.2	16.9	15.9	13.5	14.0
Corporate stocks	2.2	2.1	3.1	1.9	7	5	7
State and local securities	3	8	1.1	5	4	--	--
Foreign securities	5	1.3	3.8	1.7	1.8	8	1.0
Total securities	6.6	12.1	21.2	20.9	18.7	14.8	15.7
Home mortgages	-1.4	-1.4	-1.5	-1.4	-3	8	2
Multifamily, commercial and farm mortgages	6.3	4.4	3.9	6.7	9.2	12.2	12.5
Total mortgages	4.9	2.9	2.4	5.3	8.9	13.0	12.7
Total	11.4	15.1	23.6	26.2	27.6	27.8	28.4
Short-term funds							
Open market paper	1.0	6	3	-2	1.1	-1.0	--
Policy loans	2.7	1.6	1.4	1.7	2.6	4.7	3.5
Total	3.6	2.2	1.6	1.6	3.7	3.7	3.5
U.S. Government and agency securities							
U.S. Government securities	-1	1.4	6	-1	-5	5	8
Federal agency securities	2	4	9	1.7	2.5	2.5	2.1
Total	1	1.7	1.5	1.6	2.0	3.0	2.9
Total funds	15.2	19.0	26.7	29.4	33.4	34.5	34.8
Real estate	6	1.3	9	6	7	1.1	1.3
Cash	-1	-1	1	-1	2	--	1
Other - net	1.9	2.0	1.3	2.6	2.5	2.9	3.3
Total	17.6	22.2	28.9	32.7	36.8	38.5	39.5
MEMORANDUM							
Separate accounts*	2.0	1.6	1.5	2.6	2.6	2.5	2.3

*Net of appreciation or depreciation in market value.

Sources: Institute of Life Insurance, American Life Insurance Association, Federal Home Loan Bank Board and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — PRIVATE NONINSURED PENSION FUNDS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Employer contributions	17.0	19.8	21.8	26.5	30.5	34.0	38.0
Employee contributions	1.5	1.6	1.7	1.8	1.9	2.0	2.1
Investment income*	6.1	6.8	7.0	7.2	7.6	8.0	8.4
Total receipts	24.5	28.2	30.5	35.5	40.0	44.0	48.5
Benefit payments	11.0	12.6	14.8	16.5	18.2	20.0	21.7
Net receipts	13.5	15.6	15.7	19.0	21.8	24.0	26.8
USES OF FUNDS							
Investment funds							
Corporate bonds	2.7	4.6	2.3	6.2	7.4	6.3	8.3
Corporate stocks	2.3	5.8	7.3	4.4	5.3	10.5	11.5
Total securities	5.0	10.3	9.6	10.6	12.8	16.8	19.8
Home mortgages	7	1.5	1.8	2.7	2.1	1.3	1.8
Multifamily, commercial and farm mortgages	--	--	--	1	4	2	2
Total mortgages	7	1.5	1.8	2.9	2.5	1.5	2.0
Total	5.7	11.8	11.3	13.5	15.2	18.3	21.8
Open market paper	1.8	-1.5	-1.0	3	8	1.0	7
U.S. Government and agency securities							
U.S. Government securities	-7	3.4	1.6	2.1	-1	9	7
Federal agency securities	1.1	3	6	6	--	1.8	1.6
Total	4	3.7	2.1	2.7	-1	2.7	2.3
Total funds	7.9	14.1	12.5	16.5	16.0	22.0	24.8
Cash	2.0	-1.3	-8	1.5	4.4	3	5
Other - net	3.7	2.9	4.0	1.0	1.4	1.7	1.5
Total	13.5	15.6	15.7	19.0	21.8	24.0	26.8
MEMORANDUM							
Insured pension plans							
Premium payments	7.7	10.2	14.7	14.6	16.1	18.5	19.0
Increase in reserves**	7.4	8.8	15.6	14.0	17.0	18.0	18.5

*Includes minor amounts of other income.

**Part of the increase in admitted assets of life insurance companies, net of appreciation or depreciation in market value.

Sources: Securities and Exchange Commission and Institute of Life Insurance.

SOURCES AND USES OF FUNDS — STATE AND LOCAL GOVERNMENTS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
Retirement Funds							
SOURCES OF FUNDS							
Government contributions	8.2	9.9	12.2	15.2	17.9	20.5	23.5
Employee contributions	4.1	4.6	5.3	5.7	6.1	6.8	7.3
Investment income	5.2	6.1	7.4	9.2	11.1	12.5	14.3
Total receipts	17.4	20.6	25.0	30.1	35.0	39.8	45.1
Benefit payments	6.9	8.1	9.4	10.8	12.2	13.0	14.0
Net receipts	10.5	12.5	15.6	19.3	22.8	26.8	31.1
USES OF FUNDS							
Investment funds							
Corporate bonds	7.5	5.0	4.0	5.3	4.7	6.5	8.7
Corporate stocks	2.6	2.4	3.1	3.7	3.7	3.0	4.6
State and local securities	-7	1.9	1.4	2	-	1	-
Total securities	9.4	9.3	8.5	9.2	7.8	9.6	13.3
Home mortgages	-	-	-	2	5	3	3
Multifamily mortgages	-7	5	1.1	8	1.2	1.7	1.8
Total mortgages	-7	5	1.1	10	1.7	2.0	2.1
Total	8.7	9.8	9.6	10.2	9.5	11.6	15.4
U.S. Government and agency securities							
U.S. Government securities	-1.1	1.0	2.0	2.3	4.2	5.1	5.4
Federal agency securities	4	-3	1	1.9	2.5	2.1	2.5
Total	-7	7	2.1	4.2	6.7	7.2	7.9
Total funds	8.0	10.5	11.7	14.4	16.2	18.8	23.3
Cash	3	-3	1	3	9	1.5	1.2
Other	1.5	1.3	1.3	1.5	2.0	3.0	2.8
Total	9.8	11.5	13.1	16.2	19.1	23.3	27.3
Discrepancy - sources less uses	7	1.0	2.5	3.1	3.7	3.5	3.8
General Funds							
USES OF FUNDS							
Investment funds							
State and local securities	5	2.4	2.4	-1	1.0	-3	-
Home mortgages	7	8	8	6	2.0	2.8	2.5
Multifamily, commercial and farm mortgages	1.8	8	5	3	6	1.7	1.5
Total mortgages	2.5	1.6	1.3	9	2.6	4.5	4.0
Total	3.0	4.0	3.7	8	3.6	4.2	4.0
U.S. Government and agency securities							
U.S. Government securities*	-3.4	4.2	5.4	10.3	10.0	-1.5	-
Federal agency securities	1	4	-3	6	2.1	1.5	5
Total	-3.3	4.6	5.1	10.9	12.1	-	5
Total funds	-3	8.6	8.8	11.7	15.7	4.2	4.5

*Does not include securities held under repurchase agreements.

Sources: U.S. Department of Commerce, National Income Accounts; Federal Reserve, Flow of Funds Accounts; Bureau of the Census, *Governmental Finance*; U.S. Treasury Department, *Treasury Bulletin*; U.S. Department of Housing and Urban Development, *The Supply of Mortgage Credit*.

SOURCES AND USES OF FUNDS — FIRE AND CASUALTY INSURANCE COMPANIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Unearned premium reserves	9	16	33	35	29	18	15
Loss reserves	41	50	78	102	124	120	115
Policyholders' surplus*	11	3	23	62	59	57	50
Total	62	70	134	199	213	195	180
USES OF FUNDS							
Investment funds							
Corporate bonds	20	21	38	34	14	15	30
Corporate stocks	2	13	1	19	34	35	35
State and local securities	19	24	51	103	135	120	90
Total	38	33	90	157	183	170	155
U.S. Government and agency securities							
U.S. Government securities	4	25	31	32	9	13	15
Federal agency securities	3	2	3	2	--	2	--
Total	6	27	34	35	9	15	15
Total funds	44	60	124	192	192	185	170
Cash	1	1	2	3	4	4	3
Other - net	17	9	7	5	16	6	7
Total	62	70	134	199	213	195	180

*Net of appreciation or depreciation in market values

Sources: Alfred M. Best Company, Inc., *Best's Fire and Casualty Aggregates and Averages*, annual editions, and U.S. Treasury Department.

SOURCES AND USES OF FUNDS — SAVINGS AND LOAN ASSOCIATIONS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Savings capital	16.1	42.8	50.6	51.0	44.9	40.1	45.8
Net worth	1.4	1.3	2.2	3.2	3.8	3.4	2.8
Federal home loan bank advances	6.6	-4.0	-1.8	4.2	12.0	8.5	1.5
Bonds and other	1.1	-2	3	4.5	3.1	4.8	1.0
Total	25.1	40.0	51.3	63.0	63.9	56.8	51.1
USES OF FUNDS							
Investment funds							
State and local securities	3	6	--	--	1	1	1
Home mortgages	15.0	25.6	39.5	51.9	49.1	43.3	38.7
Multifamily, commercial and farm mortgages	3.7	6.5	7.6	8.9	6.6	6.5	6.2
Total mortgages	18.8	32.0	47.0	60.7	55.7	49.8	44.9
Total	19.1	32.6	47.0	60.7	55.8	49.9	45.0
Short-term funds							
Open market paper	-1	2	4	2	5	1.8	5
Consumer credit	8	1.2	1.2	1.3	1.2	2.0	1.0
Total	7	1.4	1.6	1.5	1.7	3.8	1.5
U.S. Government and agency securities							
U.S. Government securities	--	1.8	2.7	1.4	-1.7	-4.5	--
Federal agency securities	-2	8	6	1.3	1.4	1.2	1.4
Total	-2	2.6	3.3	2.7	-3	-3.3	1.4
Total funds	19.6	36.6	51.9	64.9	57.2	50.4	47.9
Cash and equivalents*	2.2	4.2	1.2	5	5.4	4.5	3.2
Other - net**	3.3	-8	-1.9	-2.5	1.3	1.9	--
Total	25.1	40.0	51.3	63.0	63.9	56.8	51.1

*Includes CDs, Federal funds, securities purchased on resale agreements and other short-term paper.

**Other assets less loans in process and other liabilities.

Sources: Federal Savings and Loan Insurance Corporation, Federal Home Loan Bank Board, Federal Reserve, Flow of Funds Accounts and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — MUTUAL SAVINGS BANKS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Deposits	3.0	11.2	12.6	11.0	7.9	3.3	5.8
Capital	.4	.5	.6	.9	.9	.7	.5
Total	3.4	11.6	13.2	12.0	8.8	4.0	6.3
USES OF FUNDS							
Investment funds							
Corporate bonds	8	3.5	2.8	1.2	--	-8	2
Corporate stocks	3	2	1	4	--	--	--
State and local securities	--	6	9	4	5	-3	-2
Total securities	1.1	4.3	3.7	1.9	6	-1.1	--
Home mortgages	1.1	1.9	5.5	7.2	6.3	4.3	4.6
Multifamily, commercial and farm mortgages	1.5	1.5	1.0	1.9	1.9	1.2	1.4
Total mortgages	2.6	3.5	6.5	9.1	8.2	5.5	6.0
Total	3.6	7.8	10.3	11.1	8.8	4.4	6.0
Short-term funds							
Open market paper	1	1	4	--	-6	.8	4
Consumer credit	2	2	3	5	7	--	-2
Total	3	3	7	5	1	.8	2
U.S. Government and agency securities							
U.S. Government securities*	-4	2.2	1.0	1	-1.0	-1.0	-2
Federal agency securities	-1	6	5	1	--	.3	.2
Total	-5	2.8	1.6	1	-1.0	-7	--
Total funds	3.4	10.9	12.5	11.7	7.9	4.5	6.2
Cash	2	2	--	--	1.2	-5	--
Other - net	-3	6	7	2	-3	--	.1
Total	3.4	11.6	13.2	12.0	8.8	4.0	6.3

*Does not include securities held under repurchase agreements.

Sources: National Association of Mutual Savings Banks, Federal Home Loan Bank Board, Federal Reserve, Flow of Funds Accounts and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — CREDIT UNIONS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Share capital and deposits	3.0	5.5	6.1	7.4	7.0	2.8	4.6
Surplus and reserves	<u>.3</u>	<u>.4</u>	<u>.5</u>	<u>.3</u>	<u>.6</u>	<u>.6</u>	<u>.6</u>
Total	3.3	5.9	6.6	7.7	7.6	3.4	5.2
USES OF FUNDS							
Home mortgages	.5	.1	.9	2.0	1.7	1.4	1.7
Consumer credit	2.3	3.8	5.5	6.4	8.3	3.0	2.5
U.S. Government and agency securities							
U.S. Government securities	.4	.8	.4	— .5	— .6	— .	.4
Federal agency securities	<u>— .1</u>	<u>.4</u>	<u>— .1</u>	<u>.5</u>	<u>.1</u>	<u>.1</u>	<u>.6</u>
Total	<u>.3</u>	<u>1.1</u>	<u>.3</u>	<u>— .1</u>	<u>— .5</u>	<u>.1</u>	<u>1.0</u>
Total funds	3.0	5.0	6.6	8.4	9.6	4.5	5.2
Other - net	<u>.3</u>	<u>.9</u>	<u>— .1</u>	<u>— .7</u>	<u>— 2.0</u>	<u>— 1.1</u>	<u>— .</u>
Total	3.3	5.9	6.6	7.7	7.6	3.4	5.2

Sources: National Credit Union Administration, U.S. Department of Health, Education and Welfare, Federal Reserve and Government National Mortgage Association.

SOURCES AND USES OF FUNDS — INVESTMENT COMPANIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Unit investment trusts - units issued	1.1	2.7	3.4	3.5	3.0	3.7	4.2
Money market funds - net assets	2.3	1.3	--	2	7.0	34.0	15.0
Conventional mutual funds							
Sales of capital shares	3.1	3.3	4.4	6.4	6.7	7.4	8.5
Less: Redemptions	3.4	3.7	6.8	6.0	7.2	8.4	9.0
Net sales of capital shares	—3	—4	—2.4	.4	—5	—1.0	—5
Total	3.1	3.5	1.0	4.0	9.5	36.7	18.7
USES OF FUNDS							
Investment funds							
Corporate bonds	.6	1.6	1.4	2.1	—5	1.3	.9
Corporate stocks	—3	—1.1	—2.5	—3.8	—1.6	—2.9	—2.4
State and local securities	1.0	2.2	3.0	3.9	3.1	4.1	5.0
Total	1.3	2.6	1.9	2.2	.9	2.5	3.5
Open market paper	2	—3	—7	8	3.9	15.1	6.7
U.S. Government securities	.5	.8	.2	—1	.4	4.1	1.5
Total funds	2.0	3.1	1.4	2.9	5.2	21.7	11.7
Cash	1.5	.6	—4	.5	3.7	14.3	6.5
Other - net	—4	—2	--	.6	.6	.7	.5
Total	3.1	3.5	1.0	4.0	9.5	36.7	18.7

Sources: Investment Company Institute, Federal Reserve, Flow of Funds Accounts, Securities and Exchange Commission and *The Daily Bond Buyer*.

SOURCES AND USES OF FUNDS — OTHER FINANCIAL INTERMEDIARIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
Finance Companies							
SOURCES OF FUNDS							
Cash flow							
Retained profits	9	1	9	17	21	13	10
Reserves	6	4	11	22	29	40	25
Total	15	5	20	39	50	53	35
Corporate bonds							
	19	11	47	37	76	43	40
Short-term funds							
Open market paper	10	15	15	59	49	87	42
Bank loans	25	-17	-17	-4	6	13	3
Total	35	-2	-2	55	55	100	45
Total	69	14	65	131	181	196	120
USES OF FUNDS							
Consumer credit							
	7	-1	29	59	94	133	75
Loans to business							
Retail auto	10	7	19	30	26	10	7
Wholesale auto	15	-5	13	32	8	24	15
Retail paper	11	13	14	22	23	18	12
All other	12	5	9	19	26	32	15
Total	48	21	54	103	83	84	49
Total funds	55	20	83	162	177	217	124
Other - net	13	-6	-18	-31	4	-21	-4
Total	69	14	65	131	181	196	120
Real Estate Investment Trusts							
SOURCES OF FUNDS							
Long-term funds							
Corporate bonds	2	--	-2	-1	-2	--	--
Corporate stocks	-9	-13	-5	3	4	6	7
Mortgages	2	4	4	--	1	--	--
Total	-5	-9	-3	2	3	6	7
Short-term funds							
Open market paper	-33	1	-3	--	1	1	1
Bank loans	44	-6	-19	-24	-14	-12	-10
Total	11	-5	-22	-24	-13	-11	-9
Total	6	-14	-25	-22	-10	-5	-2
USES OF FUNDS							
Mortgages							
Home mortgages	-2	-5	-2	-2	-1	-1	--
Multifamily, commercial and farm mortgages	4	-44	-35	-22	-9	-3	-2
Total	2	-48	-38	-24	-10	-4	-2
Other - net	4	34	13	2	--	-1	--
Total	6	-14	-25	-22	-10	-5	-2

Sources: Federal Reserve, Flow of Funds Accounts, Securities and Exchange Commission and National Association of Real Estate Investment Trusts.

SOURCES OF FUNDS — COMMERCIAL BANKS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
Internal sources							
Retained profits	2.6	2.8	3.4	3.2	3.4	4.0	4.4
Valuation reserves	.9	.4	.2	.6	1.0	.8	.6
Total	3.5	3.2	3.6	3.8	4.4	4.8	5.0
Net new security issues							
Bonds	2.3	1.3	1.9	2.3	1.1	2.4	2.6
Stocks	1.0	1.0	1.6	.6	1.1	.8	1.0
Total	3.3	2.3	3.5	2.9	2.2	3.2	3.6
Demand deposits - net							
U.S. Government*	-5.1	-1.7	-.1	4.3	6.8	-2	--
Other - net	4.7	6.7	12.7	21.8	15.2	12.5	8.0
Total	-4	5.0	12.6	26.1	22.0	12.3	8.0
Time and savings deposits - net							
Large negotiable certificates of deposit	28.4	-9.9	-17.2	11.7	22.6	-2.4	5.0
Savings	8.4	24.7	37.2	17.6	3.2	-14.3	--
Other	20.0	15.5	20.3	25.4	39.2	66.9	59.5
Total	56.8	30.3	40.3	54.7	65.0	50.2	64.5
Total deposits - net	56.4	35.3	52.9	80.8	87.0	62.5	72.5
Other sources of funds							
Federal funds and RPs	1.6	1.5	13.9	10.6	18.8	24.0	12.6
Open market paper	2.0	--	-.8	1.4	6.6	4.6	3.0
Other liabilities**	3.2	-11.3	-8.2	-1.5	22.2	27.9	14.0
Total	6.8	-9.8	4.9	10.5	47.6	56.5	29.6
Total	70.0	31.0	64.9	98.0	141.2	127.0	110.7

*Includes Treasury tax and loan notes.

**Eurodollar borrowings, changes in miscellaneous liabilities after adjustments, changes in interbank claims and borrowing at the Federal Reserve.

Sources: Federal Reserve, Flow of Funds Accounts, Federal Deposit Insurance Corporation and Bankers Trust Company.

Note: Bonds and open market paper include liabilities of bank holding companies.

USES OF FUNDS — COMMERCIAL BANKS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
Investment funds							
Corporate bonds	1.0	1.8	-6	--	-3	6	--
State and local securities	5.5	1.8	3.0	9.2	9.6	9.0	8.5
Total securities	6.5	3.6	2.4	9.2	9.3	9.6	8.5
Home mortgages	6.9	2.3	9.7	20.6	23.3	21.5	16.5
Multifamily, commercial and farm mortgages	6.2	1.7	5.5	8.8	13.3	13.9	11.5
Total mortgages	13.1	4.0	15.2	29.4	36.6	35.4	28.0
Term loans to business corporations	11.0	1.3	-1.2	5.2	15.7	22.0	15.0
Total	30.6	8.9	16.4	43.8	61.6	67.0	51.5
Short-term funds							
Business loans:							
Business corporations	18.8	-12.1	4.0	16.4	15.7	18.0	11.0
Noncorporate business, including farm	4	--	1	2.5	2.5	2.9	2.5
Foreigners	1.3	2.5	1.7	3	6.6	4.0	3.5
Total business loans	20.5	-9.6	5.8	19.2	24.8	24.9	17.0
Financial loans:							
Finance companies	2.5	-1.7	-1.7	-4	6	1.3	3
Real estate investment trusts	4.4	-6	-1.9	-2.4	-1.4	-1.2	-1.0
Other	-2.3	-1.4	-1	2.5	3.6	2.9	1.5
Loans on securities	-2.2	2.1	6.6	2.2	-2.9	-5	1.2
Total financial loans	2.4	-1.6	2.9	1.9	-1	2.5	2.0
Other:							
Open market paper	2.2	1.1	3.7	3	-1.3	1.5	1.0
Consumer credit	3.4	3.1	12.0	22.3	26.9	17.6	14.7
Other loans	4.9	-2	6.2	5.5	15.1	7.5	6.0
Total other	10.5	4.0	21.9	28.1	40.7	26.6	21.7
Total	33.4	-7.2	30.6	49.2	65.4	54.0	40.7
U.S. Government and agency securities							
U.S. Government securities	-2.9	28.6	18.7	-1.9	-6.5	-8	9.0
Federal agency securities	3.3	1.2	6	-1.2	5.4	5.3	3.5
Total	4	29.8	19.3	-3.1	-1.1	4.5	12.5
Total funds	64.4	31.5	66.3	89.9	125.9	125.5	104.7
Other financial assets							
Vault cash and member bank reserves	-3	8	-1.0	3.5	5.9	-5.4	-2.0
Other	5.8	-1.3	-4	4.6	9.4	6.9	8.0
Total	5.5	-5	-1.4	8.1	15.3	1.5	6.0
Total	70.0	31.0	64.9	98.0	141.2	127.0	110.7

Sources: Federal Reserve, Flow of Funds Accounts and Federal Trade Commission.

Note: Includes banks chartered in the United States and their domestic affiliates, Edge Act corporations, and agencies and branches of foreign banks.

SOURCES OF FUNDS — BUSINESS CORPORATIONS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
Cash flow							
Undistributed profits*	39.1	35.1	48.5	52.1	61.0	76.5	59.5
Capital consumption allowances**	77.0	84.0	91.4	103.0	113.1	123.7	135.5
Total	116.1	119.2	139.9	155.1	174.0	200.2	195.0
Long-term funds							
Net new bond issues	19.7	27.2	22.8	21.0	18.9	20.8	28.0
Net new stock issues	4.2	10.7	10.0	2.7	2.6	3.0	5.4
Total net new issues	23.9	37.9	32.8	23.7	21.5	23.8	33.4
Mortgages	13.7	9.5	12.9	18.9	23.3	27.5	26.5
Term bank loans	11.0	1.3	-1.2	5.2	15.7	22.0	15.0
Industrial tax exempts	2.5	3.0	3.0	4.3	4.1	4.2	4.5
Total	51.1	51.7	47.5	52.1	64.6	77.5	79.4
Short-term funds							
Open market paper	5.3	-2.8	2.8	2.2	4.1	11.1	6.0
Short-term bank loans	18.8	-12.1	4.0	16.4	15.7	18.0	11.0
Finance company loans	5.8	2.2	5.2	10.3	8.3	8.4	4.9
Total	29.9	-12.7	12.0	28.9	28.1	37.5	21.9
Other short-term sources							
Unpaid taxes	1.1	-2.4	7.5	-1.3	3.4	3.0	-2.5
Direct foreign investment in U.S.	3.7	1.4	2.7	1.7	3.7	3.5	4.2
U.S. Government loans	1.5	2	2	-	1.7	1.0	5
Total	6.3	-8	10.4	4	8.8	7.5	22
Total sources	203.4	157.4	209.8	236.5	275.5	322.7	298.5
MEMORANDA							
Bank loans							
Term	11.0	1.3	-1.2	5.2	15.7	22.0	15.0
Short-term	18.8	-12.1	4.0	16.4	15.7	18.0	11.0
Total	29.8	-10.8	2.8	21.6	31.4	40.0	26.0
Corporate profits							
Profits before taxes	126.9	120.4	156.0	177.1	206.0	235.8	211.0
Tax liability	52.4	49.8	63.8	72.6	84.5	92.0	81.0
Profits after taxes	74.5	70.6	92.2	104.5	121.5	143.8	130.0
Cash dividends	31.0	31.9	37.5	42.1	47.2	52.7	56.4
Undistributed profits	43.6	38.7	54.7	62.4	74.3	91.1	73.6
Nonfinancial corporations	39.1	35.1	48.5	52.1	61.0	76.5	59.5
Commercial banks	2.6	2.8	3.4	3.2	3.4	4.0	4.4
Other	1.9	8	2.8	7.1	9.9	10.6	9.7

*Includes foreign branch profits.

**Before capital consumption adjustment.

Sources: Federal Reserve, Flow of Funds Accounts and U.S. Department of Commerce, National Income Accounts.

USES OF FUNDS — BUSINESS CORPORATIONS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
State and local securities	6	-2	-1.1	--	2	3	2
Short-term funds							
Open market paper	4.1	3.1	5.0	4.0	3.0	4.5	3.0
Consumer credit	1.8	7	2.5	3.9	2.6	4.0	3.1
Net trade credit	3.5	3	6.1	8.5	10.1	8.5	5.0
Total	9.4	4.1	13.6	16.4	15.7	17.0	11.1
U.S. Government and agency securities							
U.S. Government securities*	9	9.5	2.3	-5.8	-7.1	-1.0	--
Federal agency securities	1.4	-8	--	-4	7	3	5
Total	2.3	8.7	2.3	-6.1	-6.3	-7	5
Total funds	12.3	12.6	14.8	10.3	9.6	16.6	11.8
Physical assets							
Plant and equipment	113.0	106.9	121.2	143.3	170.0	198.0	212.0
Residential structures	2.2	2.0	3.0	4.8	4.2	4.5	3.5
Inventories - book value	53.4	2.0	25.5	34.4	45.0	54.0	24.0
Total	168.6	110.9	149.7	182.5	219.2	256.5	239.5
Cash assets	4.8	8.9	5.3	6.9	8.0	5.5	8.2
Other assets							
Investment abroad**	1.2	6.0	3.9	5.0	3.8	6.5	5.0
Miscellaneous assets***	5.0	1.3	11.5	11.7	15.0	15.5	16.0
Total	6.2	7.3	15.4	16.7	18.8	22.0	21.0
Total uses	191.9	139.7	185.2	216.4	255.6	300.6	280.5
Discrepancy - sources less uses	11.5	17.7	24.6	20.1	19.9	22.1	18.0

MEMORANDUM

Growth of liquid assets	6.0	19.8	13.9	6.0	10.3	14.5	17.2
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*Does not include securities held under repurchase agreements

**Net of foreign security flotations for additions to and refinancing of direct investments

***Includes securities purchased on resale agreements

Sources: Federal Reserve, Flow of Funds Accounts and U.S. Department of Commerce, National Income Accounts and U.S. Balance of Payments

FUNDS SUPPLIED — U.S. GOVERNMENT AGENCIES

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
U.S. Government and Budget Agencies							
Investment funds							
Home mortgages	2.6	4.3	-1.8	9	1.0	1.8	1.6
Multifamily and farm mortgages	1.3	1.9	1.1	1.1	2.2	4.2	3.8
Total mortgages	3.9	6.2	-8	2.0	3.2	6.0	5.4
Loans to state and local governments	7	2	2.0	2	-1.6	.3	2
Total funds	4.6	6.4	1.2	2.2	1.6	6.3	5.6
Other loans of the Federal Financing Bank*	2.0	9.7	9.2	7.7	9.1	11.2	14.0
Total	6.6	16.1	10.4	9.9	10.7	17.5	19.6
Nonbudget Agencies							
Investment funds							
Home mortgages	5.5	2.5	5	5	9.0	8.7	9.7
Multifamily and farm mortgages	4.7	2.8	2.4	3.0	3.2	5.2	5.0
Total mortgages	10.2	5.3	2.9	3.5	12.2	13.9	14.7
Term loans by banks for cooperatives	3	3	5	5	4	.5	5
Total	10.5	5.6	3.4	4.0	12.6	14.4	15.2
Short-term funds							
Loans by banks for cooperatives	7	1	5	2	1	.9	1.2
Loans by Federal intermediate credit banks	1.6	1.1	1.3	1.1	1.2	2.1	2.8
Total	2.3	1.3	1.8	1.3	1.3	3.0	4.0
U.S. Government securities**	--	-3	1.7	-2.5	1.8	.5	--
Total funds	12.8	6.6	6.9	2.8	15.7	17.9	19.2
FHLB advances to savings and loan associations	6.6	-4.0	-1.8	4.2	12.0	8.5	1.5
Total	19.4	2.6	5.1	7.1	27.8	26.4	20.7

*Other than mortgage funds.

**Does not include securities held under repurchase agreements.

Sources: Federal Reserve, Flow of Funds Accounts, Federal Home Loan Bank Board, U.S. Treasury, *Treasury Bulletin* and Farm Credit Administration, *Annual Report*.

ACTIVITY OF FOREIGNERS IN U.S. CREDIT AND CAPITAL MARKETS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
SOURCES OF FUNDS							
Net sales of securities							
Foreign bonds	2.2	6.3	8.7	5.1	4.0	3.7	4.2
Foreign stocks	-2	2	3	4	-5	6	5
Total	2.0	6.5	9.1	5.5	3.5	4.3	4.7
Loans from commercial banks							
To business	1.3	2.5	1.7	3	6.6	4.0	3.5
To banks	3.1	1.1	4.2	2.7	9.5	-1.3	--
To official institutions	3	3	9	1	2.1	4.3	3.5
Total	4.7	3.9	6.8	3.1	18.3	7.0	7.0
Open market paper	7.3	3	1.9	2.4	6.6	10.0	7.0
Total	14.0	10.7	17.8	11.0	28.4	21.3	18.7
USES OF FUNDS							
Investment funds							
Corporate bonds*	5	7	3	8	4	-8	-5
Corporate stocks	5	4.7	2.8	2.7	2.4	1.5	--
Total	1.1	5.3	3.1	3.5	2.8	.7	-5
Open market paper	6.6	-2.6	2.7	4.4	7.9	3.5	3.0
U.S. Government and agency securities							
U.S. Government securities	4.1	7.7	11.6	31.5	28.2	-16.8	12.0
Federal agency securities	4	-1	6	2.7	1.2	.3	1.0
Total	4.5	7.6	12.2	34.2	29.4	-16.5	13.0
Total funds	12.2	10.4	17.9	42.1	40.1	-12.3	15.5

*Excludes issues sold abroad by U.S. corporations.

Sources: U.S. Treasury Department, *Treasury Bulletin*; U.S. Department of Commerce, U.S. Balance of Payments and Federal Reserve, Flow of Funds Accounts.

INDIVIDUALS AND OTHERS

(in billions of dollars)

	1974	1975	1976	1977	1978	1979 (est.)	1980 (proj.)
FUNDS SUPPLIED							
Investment funds							
Corporate bonds	6.4	4.7	2.6	-5.9	-8	6	1.0
Corporate stocks	-3.1	-2.3	-2.8	-7.6	-8.9	-11.7	-10.8
State and local securities	7.0	3.5	-	-6	-3	-3.1	4
Foreign securities	1.5	5.3	5.2	3.8	1.7	3.5	3.7
Total securities	11.8	11.1	5.1	-10.4	-8.3	-10.7	-5.7
Home mortgages	2.6	2.3	6.9	10.5	7.9	18.4	17.9
Multifamily, commercial and farm mortgages	2.7	9	2.8	5.2	5.7	6.5	6.8
Total mortgages	5.3	3.1	9.8	15.7	13.6	24.9	24.7
Total	17.1	14.2	14.9	5.3	5.3	14.2	19.0
Short-term funds - open market paper	3	-2.3	-2.6	5.1	11.3	13.0	8.5
U.S. Government and agency securities							
U.S. Government securities	12.3	14.9	8.8	12.1	19.9	46.4	21.9
Federal agency securities	7.0	-1.6	-2.5	-2.6	6.7	3.5	7.2
Total	19.3	13.3	6.3	9.4	26.5	49.9	29.1
Total funds	36.8	25.3	18.5	19.7	43.1	77.1	56.6